"Carborundum Universal Limited Q1 FY25 Earnings Conference Call"

July 31, 2024

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Moderator: Ladies and gentlemen, good day, and welcome to the Carborundum Universal Q1 FY '25 Earnings Conference Call hosted by Kotak 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 call, please signal an operator by pressing the star, then zero on your touchtone phone.

I now hand the conference over to Mr. Aditya Mongia – Lead Analyst, Industrial Transit Sector. Thank you, and over to you, sir.

Aditya Mongia: Thank you, Steve, and welcome everyone to the Q1 FY '25 Earnings Call for Carborundum Universal.

Introducing the management, we have today with us, Mr. Sridharan Rangarajan – the Managing Director; Mr. Sushil Bendale – the Chief Financial Officer; Mr. G. Chandramouli – Advisor, Investor Relations; and Mr. Denesh Kumar – Senior Manager, Strategic Planning.

We would request the management to make the "Initial Remarks" on the Results that have gone by, post which we can start with the Q&A session. Mr. Rangarajan and your team, over to you. Thank you.

G. Chandramouli: Good morning to all of you. I am Chandramouli. Before we begin, as a practice, I will read out our disclaimer.

During this call, we may make certain statements which reflect our outlook for the future, or which could be construed as a forward-looking statement. These statements are based on the management's current expectations and are associated with uncertainties and risks, 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 risks that the company faces. Thank you.

Sridharan Rangarajan: Thank you. Good morning and very happy to meet you all again. Hope all of you are doing fine. There are rains. There are other natural calamities. Hope everyone is safe and take care of your health. So, good morning to all of you. A warm welcome to our First Earnings Call for the Financial Year FY '25.

Today, I have with me Sushil Bendale who is our CFO and Chandramouli, the Investor Relations person and Mr. Denesh, Head of Strategic Planning. We will begin this call by providing an overview and then later on, we will have a Q&A from you.

Consolidated results, I will start with:

Consolidated sales for Q 1 FY '25 was almost the same at Rs. 1,184 crores compared to Q1 FY'24. Consolidated Abrasives grew at 6.3% whereas there is a degrowth in Ceramics and Electrominerals segment by 6% and 9% respectively.

On sequential basis, Abrasives grew by 3.5%. Electrominerals was flat and Ceramics has a de-growth of 4%.

PBIT for the quarter degrew by 3.5% to Rs. 149 crores, with PBIT margin of 12.6% against Rs. 155 crores in Q1 FY '24 with a PBIT margin of 13%. This was majorly contributed by abrasive growth at 76%, while Ceramics and Electrominerals degrew by 20% and 42% respectively.

The PBIT margin for Abrasives improved significantly from 6% in Q1 FY '24 to 10% in Q1 of the current financial year. While Ceramics' margin dropped from 28.2% to 24% and margin of Electrominerals dropped from 17.7% to 11.4% compared with Q4 FY '24, Abrasives' margin dropped by 188 bps and Ceramics by 120 bps and Electrominerals by 219 bps. I will cover this in detail as I make my opening remark.

Profit after tax for the quarter was almost flat at Rs. 113 crores compared to Q1 FY '24, though there is a de-growth of 16.2% against Q4 FY '24. Foskor Zirconia delivered profits in Q4, FY'24, but they incurred losses in Q1 FY '25. Also, profits from VAW Russia are lower mainly due to exchange impact. I will cover this again in detail. These two subsidiaries accounted for about Rs. 17 crores drop in profit after tax.

Standalone business grew marginally by 1% to Rs. 664 crores compared to Q1 as well as Q4 of FY '24. In comparison to Q1 FY '24, the Abrasives segment grew by 7%, Electrominerals degrew by 4% and Ceramics degrew by 6%.

On sequential basis, Electrominerals grew by 5.4%, Abrasives grew by 3.7%, and Ceramics degrew by 1.7%.

PBIT for the quarter was at Rs. 119 crores representing a degrowth of 2% quarter-over-quarter and 4% sequentially. The PBIT margin dropped from 18.5% in Q1 FY '24 to 18% in Q1 of the current financial year. Though the Abrasives margin improved from 15.3% to 17.6%, drop in margin from Electrominerals and Ceramics segment resulted in drop by 54 basis points.

Profit after tax for Q1 FY '25 was almost flat at Rs.93 crores compared to Q1 of the last year and a marginal drop of 1% from Q1 FY '24.

Now I will go by business:

Abrasives:

Consolidated abrasives revenue for Q1 FY '25 was at Rs. 552 crores with growth of 6.3% compared to the same period last year and a growth of 3.5% sequentially. Standalone business and RHODIUS plus AWUKO showed good growth compared to Q1 FY '24, whereas the domestic subsidiary Sterling Abrasives, VAW Russia showed negative growth. Sterling was impacted mainly due to the slowdown in domestic agro business despite their good performance in export. VAW mainly had an exchange impact as their sales were flat in local currency.

Standalone Abrasives for the quarter:

The sales grew 7.3% to Rs 303 crores compared to Q1 FY ‘24 and 3.7% sequentially. On a quarter-over-quarter basis, the growth was majorly driven by the industrial and retail segment where the major growth is coming from volume increase. However, there is a single digit de-growth in the precision segment mainly from exports, whereas the domestic market volumes and price remained at similar levels as that of last year.

VAW for the quarter:

The sales in local currency grew by 16% compared to Q4 FY ‘24 mainly driven by an increase in volumes, though sales were flat compared to Q1 of the last year. The drop in volumes was compensated by a similar increase in price realisation. I will cover VAW in detail when I go to the Electrominerals segment.

RHODIUS:

RHODIUS in Q1 achieved net sales of 17.3 million Euro compared to 15.5 million Euro in Q1 of FY ‘24 and 17.1 million Euro in Q4 FY ‘24. This represents a 12% growth over the last year, majorly driven by an increase in sales to Europe and the Americas. There was an increase in volume to an extent of 9% while mix and price enabled 1%.

Coming to the bottom-line performance:

I am happy to share that RHODIUS delivered profit in this quarter as well and delivered PAT of 0.3 million Euro compared to the loss after tax of 0.8 million Euro in Q1 of the last year. This was on account of favorable raw material price and improvements in production performance and volume. On a sequential basis, there is a marginal drop in profit to an extent of 0.3 million Euro, mainly coming from an increase in raw material prices and one-time employee payments.

AWUKO:

Coming to AWUKO’s performance:

We achieved 3 million Euro in sales for the quarter, which is around 20% better compared to Q1 of FY ‘24, as well as sequentially. The losses after tax have come down from 0.73 million Euro in Q1 FY’24 to 0.6 million Euro in Q1 of this year. However, the losses have increased from a level of 0.4 million Euro in Q4 FY’24. As we told earlier, we expect AWUKO to break even at EBITDA level in FY ‘25. The small loss of 0.7 million Euro to 1 million Euro, we still maintain the same outlook.

America, there was a small degrowth of 4% and 13% compared to Q4 and Q1 of the last year, mainly impacted due to logistics-related challenges, but I think the program for the full year is intact.

I will now cover the bottom-line performance of this segment:

Consolidated PBIT for the quarter grew significantly by 76% compared to Q1 of last year. This resulted in margins improving from 6% in Q1, FY ‘24 to 10% in Q1, FY ‘25. This was mainly due to better performance in standalone, losses coming down in AWUKO and margins moving better in RHODIUS.

Standalone PBIT grew by 23.6% to Rs. 53.4 crores quarter-over-quarter and margins improved to 17.6% compared to 15.3% during the last year, mainly on account of product mix, softening of input costs, improvement in operational efficiencies, and better realisation.

Sequentially, the PBIT went down by Rs. 8.2 crores mainly due to lower profits from RHODIUS and AWUKO, which we just covered.

Electrominerals consolidated:

Electrominerals on a consolidated basis for the quarter delivered similar revenue at Rs. 381 crores compared to Q4 FY ‘24. However, there is a degrowth of 9% compared to Q1 of last year mainly coming from VAW and CUMI standalone, I will be covering more details now.

Standalone Electrominerals:

Sales for the quarter was Rs. 189 crores, which represents a growth of 5.4% compared to Q4 of FY ‘24 and a degrowth of 4% when compared to Q1 of the last year. There has been good volume growth in aluminas and silicon carbide both sequentially and prices remain at similar level. While compared with Q1 of FY ‘24, there has been a drop in price realisation by 4% to 6% and you would see that the prices have been dropping since the last year Q1. So, that is what this is comparison, but the volumes remained intact, and we are also doing price corrections and we will get back to normalcy.

VAW for the quarter, sales grew by 5% to Rouble 2.4 billion against Rouble 2.3 billion in Q4 FY ‘24 on account of increase in volumes mainly. Price realisations were flat. Sales were flat compared to Q1 FY ‘24. When converted to INR, it shows a downward performance quarter-over-quarter because of strong Rouble in Q1 FY ‘24 where it was converted at 1 Rouble equivalent to 1.01 Indian rupees on an average, whereas it has become weak at 0.92 Indian rupees in Q1 FY ‘25.

The operations are running well and there has been a significant increase in sales volumes of refractories and abrasives by 28% and 14% respectively. The volume increase in silicon carbide is also very good.

Here I want to highlight that sales volume to export has increased compared to Q4 of FY ‘24 as well as compared to Q1 of last year. On this backdrop, the mix towards export sales volume has increased to 43% compared to 40%.

They delivered a profit after tax of 287 million Rouble in Q1 FY '25 against 423 million Rouble during the same period of the last year and Rouble 384 million in Q4 FY '24. This was mainly due to exchange impact. Operationally, VAW is doing fine.

To illustrate, in March '23, 1 US dollar was equivalent to 77.98 Rouble. I am talking March '23. This became 89.29 Rouble in June '23. So, when you close the books in June '23, you would restate your receivables in the book, bank balances and probably realizations. This resulted in exchange gain by restating the foreign currency receivable, bank balance and realizations.

However, in March '24, 1 US dollar was 92.59 Rouble. This became 85.75 in June '24. This difference in movement is one of the main factors for the reduction in profit to the extent of Rs. 20 to 23 crores, which you will see this in other income drop as well. They continue to be debt-free and the outlook remains stable and positive.

Now I move to Foskor Zirconia:

For the quarter, the sales volume increased by 12% to 1,050 metric tons compared to Q1 of the last year and 3% growth sequentially. There is a decrease in price realization. This is the main reason for also the impact in profitability. So, despite maintaining the sales volume, Foskor incurred loss mainly because of lower realisation and product mix. We expect Q2 and rest of the year to be better than this and the plans for the same are in place. This covered the revenue portion of the Electrominerals segment.

Now I will cover the bottom-line performance of the segment:

Consolidated PBIT for the quarter was Rs. 43.3 crores, which de-grew by 42% compared to Q1 of the last year. The standalone business, VAW and Foskor delivered lower PBIT than that of the last year. Standalone business was hit by a drop in price realisation. This is compared to Q1 of last year, owing to the lower price of domestic imports.

VAW:

As explained, Rs. 20 to Rs. 23 crores reduction in profit was mainly on account of the exchange impact in their books. Foskor profits are impacted by a drop in price and product mix. Combined together, there was a drop of Rs. 31 crores in PBIT. Standalone PBIT grew by 46% to Rs. 16 crores compared to Q4, FY '24 and margins improved from 6.2% to 8.5%.

Ceramics:

Consolidated Ceramics for the quarter degrew by 6% to Rs. 270 crores, quarter-over-quarter, and 4% compared to Q4 FY '24. The drop was mainly from the standalone business as engineered Ceramics segment is yet to recover, as well as some refractory orders are getting delayed.

Standalone ceramics:

The Refractory, Wear Ceramics, and Metallised Cylinders business combined together grew 17% compared to Q1 of FY ‘24 and 1.4% compared to Q4, FY ‘24. But the degrowth in engineered ceramics, overall ceramic segment resulted in a degrowth of 6.2% to Rs. 217 crores. And I think I will also cover this in a minute later, but I will wait for that. Subsidiaries in America registered good growth quarter-over-quarter and sequentially, whereas Australian subsidiary was flat compared to Q1 of the last year.

So, I will now cover the consolidated PBIT for the quarter was Rs. 65 crores representing a degrowth of 9% compared to Q4 of last year. This resulted in margin declining from 25.2% in Q4, FY ‘24 to 24% in Q1, FY ‘25. This was mainly due to drop in margins of standalone business to 22.7% by 83 bps and margins dropped in Australian subsidiary. The drop in margins of standalone was mainly on account of mix between industrial ceramics and refractories product mix and also the product mix within the industrial ceramics.

I will come back again, but I request our CFO - Sushil to cover the financials in detail.

Sushil Bendale: Thank you, sir.

First, I will talk about the consolidated PBIT margins:

For the quarter, consolidated PBIT margin was at 12.6% compared to 13% in Q1 of FY ‘24. This was majorly contributed by better performance in abrasives. Abrasives margins actually improved from 6% to 10%, while ceramics’ margins declined from 28.2% to 24% and Electrominerals’ margins declined from 17.7% to 11.4%.

Now I will talk about the standalone:

For the quarter, standalone PBIT margin was at 18% compared to 18.5% during the same period last year. Abrasives’ margins improved from 15.3% to 17.6%. Ceramics’ margins declined from 26.9% to 22.7%, and Electrominerals’ margins declined from 11.6% to 8.5%.

Now I will talk about the Abrasives segment:

Consolidated PBIT margins for the quarter improved from 6% to 10%, mainly contributed by standalone abrasives business margins increasing from 15.3% to 17.6%. And this was on the back of better realisations, improved operational efficiencies, losses coming down in AWUKO and margins moving from negative to positive for RHODIUS.

Now, Electrominerals:

For the quarter, at a consolidated level, PBIT margin has decreased from 17.7% during same period last year to 11.4% in the current financial year.

Standalone business, VAW and Foskor delivered lower PBIT than that of last year. Standalone business was primarily hit due to a drop in price realisations by almost 4% to 6% due to price pressure owing to lower price imports.

VAW primarily because of the exchange impact as was explained earlier and Foskor due to the drop in price realisations and product mix. But combined together, there was a drop of Rs. 31 crores in PBIT, but standalone PBIT grew by 46% to Rs. 16 crores compared to Q4 FY '24 and margins improved from 6.2% to 8.5%.

Now, Ceramics:

For the quarter, consolidated PBIT margins declined from 28.2% in Q1 FY '24 to 24%. Standalone margins also decreased from 26.9% to 22.7%. The drop in margins of standalone was primarily on account of mix between industrial ceramics and refractories and the product mix within the industrial ceramics business.

VAW delivered better margins while CUMI America and Australia had lower margins than the same period last year.

Now, coming to the debt position:

There was no debt in our standalone books and total debt at a consolidated basis was Rs. 112 crores at the end of Q1 FY '25 compared to Rs. 113 crores at the end of FY '24 and Rs.178 crores at the end of Q1 FY '24. The debt-to-equity ratio was at 0.03 at a consolidated level.

Now, CAPEX:

During Q1 of FY '25, our CAPEX investment was Rs. 63 crores at a consolidated level.

ROCE:

For the quarter, the return on capital employed at a consolidated level is 16.9% compared to 19.7% during the same period last year. At a standalone level, it is at 20% compared to 22.6%.

For consolidated businesses, ROCE in Q1 FY '25 for Abrasives improved from 9.4% to 15.5%, while Ceramics has declined from 54.6% to 41.5%, and Electrominerals also decreased from 31.9% to 17.8%. For the standalone businesses, ROCE for Q1 FY '25 for Abrasives has improved from 44.8% to 45.4%, while Ceramics and Electrominerals have decreased.

Now I request Mr. Sridharan to take you through the next section, which talk about our future outlook.

Sridharan Rangarajan: Thank you, Sushil. We talked about the guidance for FY '25 last time. I will comment on what we communicated earlier and what we expect considering the Q1 performance. We communicated full-year consolidated sales growth could be 9% to 11% and consolidated sales could be Rs. 5,100 to 5,200 crores. We are confident of delivering the same.

We expect the growth of 11% to 12% in Abrasives, 12% to 14% in Ceramics as told earlier. We maintain the same stands for Electrominerals as well, a growth of 5% to 6%. Abrasive India growth would be 9% to 11% as communicated earlier.

RHODIUS is doing fine against what we planned. We are confident of delivering a growth of 10%, what we communicated earlier.

AWUKO delivered their Q1 FY '25 plan, and we are confident of delivering what we communicated during our last call, a growth of 8 million Euro to 10 million Euro over FY '24.

Industrial ceramics:

We still hold the growth projection of 13% to 15% in the segment driven by India, America, and Australia. Australia in Q1 FY '25 was marginally below the same period last year, but it is a very small percentage.

Q2 is also expected to be on a similar line. Growth in the second half of the year would be better, which will result in marginal growth in FY '25 against FY '24, what we told earlier. This is based on their order books as well as the projections that we have from some of the key customers.

Refractory:

We are confident of delivering growth around 12% to 13% over the last year. They have a very strong order book and there are some delays in scheduling the order. That is what is having some seasonality issues, but it would happen.

Electrominerals:

While it's expected to deliver similar performance of the last year in Rouble terms, this is what we have planned and what we communicated. Growth from standalone businesses is expected to be in line with our plan.

For Foskor, though Q1 FY '21 was impacted, we expect coming quarters to be better. We expect good growth over the last year, but some shortfall from the plan.

On the bottom line, we are confident of delivering what we communicated earlier. A consolidated PBIT margin to improve by 20 bps to 30 bps, this is what we communicated. We expect similar numbers.

Consolidated Abrasive margin to improve by another 100 bps in FY '25, we still hold the same. Ceramics' margins should be similar as that of FY '24. Electrominerals 20 to 30 bps improvement in FY '25.

On CAPEX side:

We are confident of spending Rs. 350 crores. We spent Rs. 63 crores in Q1 FY'25

So, by and large, I would say, Q1, the top line in profitability or in line with the last year is better than our internal business plan. We expect the second half to be better. All the projects that we plan to execute are in line and we are confident of what we guided the last call.

Thank you, and we will open up for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Amit Anwani from PL Capital. Please go ahead.

Amit Anwani: First question is on VAW. So, you did highlight that kind of flattish volumes we are expecting. Just wanted to understand, I think we were talking about debottlenecking, and I recollect the utilizations were also (+85%). I just wanted to understand is there any scope for debottlenecking, what is the capacity utilisations? And is there any constraint now with respect to volumes in the coming quarters and years from VAW?

Sridharan Rangarajan: Thank you, Amit. I think the VAW is doing fine. Capacity utilisations, mainly the silicon carbide is very much on full capacity utilisation. The debottlenecking program is happening, and it will come on place, but I think when I said flat is largely is a function of comparative to the quarters that we are comparing. I think given the circumstances, given what we are all going through that, I think they are doing fine. We expect capacities will be augmented in time over the next year.

Amit Anwani: Second, sir, wanted to have an update on the Chinese dumping impact. You did allude in the previous quarters also, in abrasives, I think we were facing issues with respect to the retail abrasive and there was a strategy that we would like to enhance the distribution channel. And there was some competition from the other paint companies. So, just wanted to have an understanding how the quarter was in abrasives with respect to the Chinese competition and local competition and also Electrominerals on alumina where we were facing the realization issues. So, if you could elaborate on these points.

Sridharan Rangarajan: I think as we communicated in my opening remarks, the abrasives segments are doing fine, and I think the growth rate is also compared to what is happening with the competition we are tracking better. Our programs of strategy are coming in place, and it is paying dividends. We feel that the pricing pressure from China would continue for some time, but I don't think it is going to be for long.

In terms of the aluminas, if you look at the trace from Q1 of last year, it continued to fall, I think, because of the competition. We see some correction. In fact, Chinese prices have started going up and so starting next quarter, we are also putting up the price and we think that there would be a reversal in the price happening in Electrominerals.

Amit Anwani: Lastly, a few other companies who are exporting are highlighting the container availability issue and logistics issue witnessed this quarter. So, do you see that? So, first of all, any impact you see and will there be any risk to our export shipments because of this for this year?

Sridharan Rangarajan: I think it's a two-way issue both in imports as well as in export. This logistics issue, availability of containers as well as the freight movement have been impacted, and I think all of us are going through this issue. Sometimes it causes delays. Sometimes it causes higher freight costs. All these combinations we are facing, and we are working with the customers as well as with the logistics agency to see how do we address this and this is across.

Amit Anwani: Are we factoring in some bit of it in our growth guidance?

Sridharan Rangarajan: I have already factored in whatever I have told.

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

Ravi Swaminathan: My first question is with respect to the ceramics and refractories business. You had mentioned that, this quarter's decline had been because of the engineered ceramics that loss of business from the single customer and refractories also slowing down a bit. Just wanted to check with you, is there a bottoming out that is happening with respect to that business from that single customer and why there has been a weakness with respect to refractories? Is it more related to election related issues or something of that sort?

Sridharan Rangarajan: I think Q1 of last year was also a high peak as far as the customer that we are talking about, but since then the company has picked up. We feel that Q2 onwards this pickup will happen, and we have factored in whatever guideline that I have shared some time back now. Consider all these and we are confident of delivering a higher growth in ceramics based on the interactions with customers and order book we feel that we will do that.

As far as the refractory, no impact due to elections, but obviously certain customers' inspection because lot of this is also dependent on their project execution timelines and inspection of the product, so there are some delays. And based on that, some invoices could not happen in Q1, but given their strong order book that what we have seen, we feel that together we will deliver the guidelines we have communicated.

Ravi Swaminathan: And if you could talk more about any progresses with respect to some of the special and specific areas that we are looking at like high-purity silicon carbide? Last call you had mentioned that you would be adding per month 6 tons. And similarly, graphene, synthetic graphite, if you can talk about incrementally, what has happened in these segments in the past 3 months and over the 3-to-5-year period, cumulatively, any ballpark numbers in terms of revenue and profitability that can pan out in these sub-segments?

Sridharan Rangarajan: So, the progress is going well as per the timeline as far as the HPSIC project is concerned. And I think we are tracking the timeline, and I think as we communicated earlier, this would serve both semiconductor and technical ceramics market and we are tracking to the timeline and schedule. So, we should be fine with that.

We are also fine with the project execution in industrial ceramics. As far as the semiconductor ceramics, that project is on, and I think we have started the CAPEX program for that. Similarly, also the CAPEX program for the defense side is also on. So, all these programs whatever we communicated is very much in line and progressing as per our internal schedule and we feel that those should be coming along as per our internal guidelines.

Ravi Swaminathan: And high-purity silicon carbide, any top line that we can kind of think of over the next 2-3 years? So, this 6 tons per month would translate to roughly around 70 tons per annum and the realisations are like 25 times, 30 times more than the existing silicon carbide realisation. So, it's like if we put a rough map, it comes to around 20-25 crores of revenue. So, is that the kind of fair assumption in terms of overall revenue potential that is there in the near term in the next 2-3 years for this business?

Sridharan Rangarajan: So, thank you for taking effort to do some calculation, Ravi. We would come back and share with the larger team as and when we are ready with the project and then some progress we are making in that direction. It would be a better job at that point in time for us to communicate.

Ravi Swaminathan: Any progress on graphene, synthetic graphite? What are the potentials there?

Sridharan Rangarajan: So, graphene, as we said that, I think we are working on multiple areas. Bio-packaging and then the car detailing are the two areas. Other than that, we are also working on rubber, cement and few coatings. These are the areas that we are currently working on. The progress is good, and I think as I communicated in the last call, this will be small incremental, but over time we will build a capability. I think allow us a reasonable time and I think this would become a good reasonable business as we progress. Give us some time. I mean, this should be a 3-to-5-year window, but it should happen.

Ravi Swaminathan: Any addressable market size for graphene itself in India or abroad? Any number that you have in mind, sir?

Sridharan Rangarajan: These are all good market size. We are looking at the opportunity set in multiple areas are really good. And also it gives us an, competitive advantage in our core product as well. So, hence, together we feel that these are all good bets to make and that is why we are taking it.

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

Harshit Patel: Sir, firstly, on the clean energy piece of the business, you have earlier indicated that we were in discussion with multiple other players as well, mainly in the developed countries to get the approvals, getting trials done, etc. Has there been any meaningful progress on that? Have we started getting some revenues from any of these customers?

Sridharan Rangarajan: So, in the sector that we are serving, this is on the solid oxide fuel cells, we are working with the biggest person in that field and others are very, very small and picking up. I am not sure where you got this information that we are working with multiple people etc. So, this is a program where our concentration is only on this single customer.

But I think what we are working on is diversification in semiconductor fab equipment-based ceramics is one clear area. We have got significant approvals, and we are also getting orders on that direction and that is why we are making an investment in separate capacity. That I think will be one track, and also the defense and aerospace is another track. These are the two tracks.

The third track is going to be on Electronic Ceramics. That is one track we are working on. I think, shortly, we will also make capacity investments for that. So, these things will help us to diversify and grow in newer and also meaningful market size areas.

Harshit Patel: Sir, just a follow up to that. Even your annual report mentions that a lot of new product development is happening in armored vehicle protection. You also just mentioned the same, and we have also done commercialisation to a significant scale. So, could you give some flavor in terms of whether this is for domestic market or for exports, the size of this business and who are the competitors that we compete with over here?

Sridharan Rangarajan: So, to start with, it will be for the domestic market and then as we start completing and also making the domestic market satisfied, we will work on the export market. The market size is quite large. And in fact, we are playing in a very niche area. So, I think we will make an investment in CAPEX to the tune of about say Rs. 30 to 40 crores. So, that is the CAPEX program that we are looking at. The revenues etc., as we mature, we will share.

Harshit Patel: Sir, just lastly on Pluss, two years ago, I think the plan was to break even in FY ‘24. However, that has not happened. I think we have still incurred losses last year. So, what is the trajectory here in terms of revenues, margins, breakeven et cetera? Also, depreciation seems to be quite high both in Pluss as well as in RHODIUS. So, the current run rates will sustain in the foreseeable future or do we expect this depreciation to come down?

Sridharan Rangarajan: So, as far as Pluss is concerned, we have been making a profit in the last two quarters and I think there is a really encouraging order book we have and definitely we are expecting break-even and better performance this year. And I think, when you talk about depreciation, you are talking about probably the intangible write-offs. Perhaps that’s what you are saying.

Harshit Patel: Yes, sir. Correct.

Sridharan Rangarajan: I think these will taper down. As far as RHODIUS is concerned, it should taper down after three years. So, I mean, three years after FY ‘25, it should taper down. And I feel that at this point in time, RHODIUS is making profit even after the PPA adjustment. So, we feel they are tracking to the program both Pluss and RHODIUS is in good shape.

Harshit Patel: Sir, just lastly on the tax rate, the tax rate at the subsidiary level seems to be very high for this particular quarter. Is there any specific reason for that? Also going forward, what would be the blended tax rate for us at the subsidiary level? That would be my last question.

Sridharan Rangarajan: So, I think for your keen, inquisitive eyes, I think you have done a very good analysis. I think the tax rate is higher largely because the deferred tax benefit is not taken in Foskor. Hence, you know, that is taking this tax rate higher. I feel that broadly, the overall company's tax rate should be in the range of 28% to 30%. That should be the broad level we should look at it.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Sir, you highlighted new areas such as HPSIC, defense and aerospace, SOFC, electronics ceramics, etc. While I understand we might not be able to outline the revenue guidance kind of a number, but can you talk a little bit about what is the addressable TAM out here, how this market is growing and who are the players that are there? What is the competition like as such in this market? So, if you can just talk a little more in terms of the TAM, which will help us to kind of at least understand where we could possibly grow to.

Sridharan Rangarajan: So, I think I talked about at least four different things. I think as far as the semiconductor and aerospace and defense, we should start seeing the benefit flowing in a year's time. As far as this electronic ceramic business is concerned, we need to put up some capacities. My guess is that in 18 months to 24 months, it should start happening. HPSIC, as I said, we should start seeing this benefit in FY '26 onwards, we should start seeing this. That is the broad timeline I can talk.

Bhoomika Nair: No, sir, I was basically trying to understand the market size and how large is this and what is it growing at over more like a two-three-year time frame. When we scale up, how large can this possibly get from that perspective?

Sridharan Rangarajan: Absolutely. So, we will share this, Bhoomika, I think at an appropriate time. Once these are in place, I think we feel these are quite an interesting size that we are looking at and an interesting opportunity for us. This is part of our long-term strategy program and so definitely we will share as we mature into this.

Bhoomika Nair: The second question is in terms of the ceramics segment, which has the engineered ceramics impacted the performance over the last few quarters. Since we are kind of recovering and you think this is kind of coming to a bottom, where do we see the growth really playing out and how do margins come back to 26% plus kind of levels out here?

Sridharan Rangarajan: I think that is already factored into the overall guidance that when I talked about. We considered the specific engineered ceramics mix getting changed is part of our margin guidance that I talked about overall ceramics. I think, give us three more quarters, you should see that at the end of the year, we will be similar to the guidance that we have given, and it will start stabilising that.

I think that is what I would share. And also, the customer with whom we are working is also showing us the signs of their order intakes and other things are getting better. We will get better is what our current discussion tells us. So, we should get back to the broad guidance that we shared the last quarter, which I repeated now. End of this year, we should see this one happening. So, the blips in this quarter etc., please don't skip this. I mean, it is a reality, but I think we will get back.

Bhoomika Nair: The last thing is on RHODIUS and AWUKO. We are seeing a turnaround. We are seeing improvement. When do we start seeing improvement in terms of the margins actually moving towards a high single-digit level? And if you can also comment about the demand, while obviously we are working on a lot of cost efficiencies, which is driving the improvement in margins, but if you can also touch upon the demand aspect in the European markets where we cater to?

Sridharan Rangarajan: So, I think we shared that there is a quarter-over-quarter of roughly about 12% growth in RHODIUS and 20% in AWUKO. Predominantly, growth is coming from the volume side of it. So, we see that the demands are slightly better and the effort that we are putting is also getting better. So, it is a combination of both.

The margin getting better right now is a lot of the efficiency factor as you rightly pointed out. When we guided, I think a couple of quarters back, we talked about EBIT margin in RHODIUS etc., getting better. It would take about three to four years. This is what we said that time.

We are still maintaining that stance and I think they will get back to the earlier levels of margins that they were delivering. I mean, we need to back off the PPA because that is an internal one and it will drop off after three years. So, I feel that they should get back to their normal level of margin by then. So, that is what I feel.

Moderator: Thank you. The next question is from the line of Mohit Pandey. Please go ahead.

Mohit Pandey: The first question is on Electrominerals. So, sir, when we are maintaining the full-year guidance for revenue, if you could elaborate on what are the assumptions on price hike and volume here for Electrominerals for the balance year?

Sridharan Rangarajan: Mohit, I think we did talk about this last time also. We are not sharing this in specific about price and volume. This is the overall total percentage is what we are giving. It's a combination of one, the standalone growth, Foskor's growth compared to the last year because for Q2 and Q3 of last year, they had an impact, which I think they would come back, which is consistently, then they are doing 1,000 tons plus, including this quarter. So, combination of all that is what we guided as an overall growth rate for the Electrominerals, which we are reiterating that we will be maintaining that.

Mohit Pandey: Sir, secondly, I think you indicated that some of the pricing pressures are easing in Electrominerals. So, wanted to understand what, if any, kind of impact that has for the abrasives' margins? Was that good as a raw material there?

Sridharan Rangarajan: So, we feel that we should pass on this price increases back to the market, but there could be some timing difference arising out of that. So, that I think we should be able to manage it is what our current feeling is.

Mohit Pandey: Sir, thirdly, on the defense ceramics for the motor vehicles, so if you could elaborate if our offerings are substituting some of the existing ceramics that are being used or these are completely new innovative offerings, so that would be very helpful.

Sridharan Rangarajan: So, this is for two different types. One is body armor and then the vehicle. These are the two areas that our focus is on. Currently, these are imported into India. This will be import substitution programs.

Mohit Pandey: And is there any benefit you are driving from the import substitution list that the government put out on the defense side from time to time or that this is not a part of those lists?

Sridharan Rangarajan: There is no benefit that we are working with any government program, but our existing competitiveness and capability is getting recognised because the Government of India took a call that they will not do import of products and they will be self-reliant. That gives us, the Atmanirbhar Bharat gives us this boost.

Mohit Pandey: And last question. I think you explained this, but I could not get this. On the other income, why is there such a fall? I could not understand earlier.

Sridharan Rangarajan: So, I think we explained to you earlier is that last year, that is Q1 FY '24, our Russian business will restate their receivables in dollar and Euro terms based on what they closed as 31st March, 2023. And the exchange difference, then versus now, is what is causing this problem. I will repeat what I said.

In March '23, 1 US dollar was equivalent to 77.98 Rouble. And in June, '23, it became 89.29. So, this resulted in a gain. Now, the same two period, if you have to compare it in '24, that is, March '24, it was 1 US Dollar is equal to 92.59 Rouble, but it went down to 85.75 in June '24. And that is what is the swing that has cost and the difference you are seeing in other income as well.

Mohit Pandey: So, it will possibly have some impact in the coming quarters also, because of exchange duration and other income.

Sridharan Rangarajan: When I looked at some four years of number, that FY '23 was an exceptional year. And to go through this, it will take eight quarters, which probably we are in the last leg of that quarter. And I hope next year, next quarter onwards, it should not have this kind of a wide swing.

Mohit Pandey: And very last question. So, how big would our R&D team be now, because we are doing so many initiatives? Is it possible to share that?

Sridharan Rangarajan: I think you asked. I think we did share this in our annual report. Offhand, I don't remember, but it should be 50 plus employees on that, but I think in the next call, I will definitely share this in specific.

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

Aditya Mongia: So, a few questions from my side. Firstly, on the abrasives part, if I focus in the standalone business, there has broadly been close to 10%-11% growth over the last two years in the first quarter. Could you kind of, and we do understand that you are gaining that share.

So the question is, on the demand environment in the Abrasives segment, on the standalone side, there has been about a 10%-11% growth on a two-year basis in this segment. And we do understand that certain strategies are starting to play out, but at a very market level, it appears to be that the demand isn't as robust. Could you give us some more sense of what is driving the numbers for you and potentially the market down?

Sridharan Rangarajan: So, I think, honestly, I think the market is growing well, is our reading, because of many factors, the kind of infrastructure investment that it goes through. Second is the kind of spend that happens on building construction, residential and commercial complexes, bridges, roads, all these leads to a lot of abrasive need. The second driver is the industrial need as well. That is also requiring a lot of the abrasive need.

So, when we feel that these combined all these factors, I think with the industrial activity growing in India, coupled with the future investment that the programs that the Government of India is projecting and the GDP growth, at least 7% plus is being looked at, obviously, the market size being large, our own assessment is about 10,000 crores plus is the market size, should grow quite reasonably well. So hence, we feel that this is what we are looking at.

Aditya Mongia: The second question that I had was that you talked about the pricing pressure from the Chinese from an import perspective, I think on the Electrominerals side and the fact that it won't last for very long. Is that based on early signs that you were seeing or let's say, are we kind of lobbying with the government for having some kind of duties being put? What gives you that confidence is what I am trying to engage over here.

Sridharan Rangarajan: Lobbying with the government is, we are continuing. We are continuing that process. But I think what we are seeing the reality is that in some products, I am not an expert on China. Don't hold me for that. But I think we see that the prices they are putting up at this point in time, we don't know what exactly the reason for that is because probably they have already bottomed out. The way they have put the price down in the past might be hurting them, could be hurting the cash flows. All that could happen and hence there could be a reversal on that. This is what we think.

Aditya Mongia: These are the last few questions from my side. Firstly, on Foskor, profit last quarter and then a loss. Is it something just volatility not concerning or how do you think through the situation over there?

Sridharan Rangarajan: Absolutely, volatility concerns us. I mean, this is a great concern for us. One is, see, what I am looking at positively is that they are able to deliver 1,000 tons. That's number one and number two is what caused them this time this problem is the first factor is that they could not buy raw material because their working capital facility was not there, which is probably is a self-inflicted wound and they have to re-smelt some of the work in progress and that cost them significant sum of money which is probably should not have happened that is something I feel is not the right thing to do.

The second factor, I think, is the price fall. The price fall is a combination of mix between Z450 and ZC product. We feel that the Z450 should pick up, which is our sweet spot, and I think it should happen. So, yes, to answer your question, I feel that the fluctuation really hurts us, but we are confident that they will get back.

Aditya Mongia: Last question from my side. Maybe this emanates from a discussion that at least I had with you maybe more than a year back. What would be the key capability gaps in your portfolio, if any, wherein you would want to focus a lot more, like we have seen AWUKO, we have seen RHODIUS, but if you were to be thinking from a 3 to 5-year perspective, are there meaningful capability gaps and can we kind of organically do something about it or would we have to rely on inorganic measures to move forward? And that is my last question.

Sridharan Rangarajan: Yes, I think I will just combine this with the earlier question Mohit asked. I will respond to that as well. The total R&D headcount is about 103 technical professionals. 26 PhDs we have at this point in time. And we have collectively filed 156 patents and 403 papers as this R&D team. But I think we need to do quite a lot.

So, we are taking a relook at the R&D support and augmenting the R&D at all the four divisions which I think is a current program that I am keenly looking at, is to revamp this and support, how do we invest more in that. And that could be a combination of many things, augmenting here, tying up centers abroad, making sure that we even be willing to work outside of India, work on this, are some of the areas would help us to augment and supplement the current capability that we have. And that would probably help us in the long run.

We are currently working on a long-term strategy going up to 2030. Clearly, this is one area where we need to invest in. We are working on that. In the next three months, we will have a program of what all the things that we need to do, like how should we revamp our structure in abrasives, ceramics, in the mineral side. All that is part of that. That perhaps also answers your question.

Aditya Mongia: Those are my questions. Steve, if you could check if there are no more questions, we can bring this conference to a close.

Moderator: Yes, sir, there are no more questions for today. I would like to hand the conference over to the management for their closing comments.

Sridharan Rangarajan: Thank you. I think, as I said, Q1, we have similar to last year, both in top line and bottom line. Cash flows are good. The balance sheet is good. Programs, whatever we started working on, we are well on trajectory. Happy to note that abrasives domestic growth as well as margins are decent and start paying off.

I feel that the overall guidance that we talked about for the full year still we hold. Give us a couple of quarters more to see and then you will start seeing this. Ceramics as a whole, I think the second half will be better.

So, by and large, I feel that this is a year where broadly we will be in line with what we are looking at. Of course, when we meet next quarter, we will share more. Thank you and thanks a lot for all your support. Bye.

Moderator: On behalf of Kotak Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.