"Carborundum Universal Limited Q2 FY'24 Earnings Conference Call"

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MODERATOR: **MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to the Carborundum Universal, Q2 FY'24 Earnings Conference Call, hosted by DAM Capital Advisors 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 this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Bhoomika Nair: Good morning, everyone and a warm welcome to the Q2 FY'24 Earnings Call of Carborundum Universal Limited.

We have the management today being represented by Mr. Sridharan Rangarajan – Managing Director; Mr. P. Padmanabhan – CFO; Mr. G. Chandramouli – Advisor-Investor Relations and Mr. Denesh Kumar – Senior Manager of Strategic Planning.

At this moment, I will hand over the floor to Mr. Rangarajan for his initial remarks, post which we will open up the floor for Q&A. Over to you, sir.

G. Chandramouli: Let us start the proceedings with the disclaimer there:

Good morning, during this call, we will 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 management's current expectations and are associated with uncertainties and risks, more fully detailed in our Annual Report, which may cause the actual result to differ. Hence these statements must be reviewed in conjunction with the risks that the Company faces. Thank you.

Sridharan Rangarajan: Good morning to all of you and a warm welcome to our 2nd Quarter and First Half Earnings Call for the Financial Year, FY'24. I trust that you and your family members are safe and healthy.

Today I am joined in the call by Mr. Padmanabhan – our CFO; Mr. Chandramouli – our Investor Relationship Advisor; Mr. Denesh – our Strategic Planning Head.

We will begin this call by providing an overview of the Company's performance for the quarter as well as the first half and then open up for questions.

Consolidated Numbers

First, I will start with Results:

Consolidated sales for H1 FY'24 were Rs. 2,314 crores, growing at 3.1% contributed by Ceramics growing at 11%, Abrasives growing at 3.2%, and Electrominerals with a negative growth of 2.5%. Consolidated sales for Q2 FY'24 were at Rs. 1,123 crores with quarter-over-quarter growth of 0.6% and a de-growth of 5.7% sequentially.

Growth in Q2 FY'24 over Q2 FY'23 is contributed by 5.5% growth in Abrasives, 4.2% growth in Ceramics, and then a (-7.8%) growth in Electrominerals. Q2 FY'24 performance compared to Q1 FY'24 was a (-5.7%) mainly contributed by Electrominerals de-growth of 9.7%.

It is important to bring the perspective of war here. VAW, our Russian subsidiary grew in H1 FY'24, in Rouble terms 24%. However, in INR terms, this turned out to be a de-growth of 6%. In H1 FY'23 Rouble was converted at 1.24 and H1 FY'24, Rouble is converted now in 0.94 and the exchange rate remained the same. The overall growth of CUMI in H1 would be in the range of 9.6% to 10%. We will discuss this in detail later.

PBIT of H1 FY'24 had Rs. 295.9 crores, the PBIT margin of 12.8% compared to PBIT of H1 FY'23 at Rs. 236.09 crores, PBIT margin of 10.5% grew at 25.3%. This was contributed by Abrasive growing at 49.1%, Ceramics growing at 26%, and Electrominerals growing at 5.8%. PBIT for Q2 FY'24 was at Rs. 141.31 crores. PBIT margin of 12.6% compared to PBIT for Q2 FY'23 at Rs. 126.6 crores, PBIT margin of 11.3% grew 11.6% quarter-over-quarter and de-grew 8.6% sequentially. PAT for H1 was at Rs. 215.1 crores grew 28.2%, PAT for Q2 FY'24 was at Rs. 101.9 crores grew 14.5% compared to Q2 FY'23, sequentially fell by 10%.

Standalone Numbers

Standalone grew by 7.6%, Rs. 1,303 crores in H1 FY'24 compared to H1 FY'23. The growth was majorly driven by Ceramic segment at 10.9%, Electrominerals at 10.9% and the Abrasive segment at 4.1%.

Growth in Q2 FY'24 compared to Q2 FY'23 is 5.4% compared to Q1 FY'24. There was a negative growth of 2.4% sequentially.

PBIT for H1 FY'24 was Rs. 232.78 crores, PBIT margin of 17.9% grew at 17.79% compared to PBIT of H1 FY23 at Rs. 197.62 crores, PBIT margin of 16.3%. The growth in PBIT margin came in from Abrasives, grew by 35.7%. Ceramics grew by 20.9% and a fall from Electrominerals by 20.3%.

Q2 FY'24 PBIT margin was Rs. 110.63 crores, PBIT margin percentage of 17.2% grew 11.2% compared to Q2 FY'23 and sequentially de-grew by 9.4%. PAT for H1 FY'24 was Rs. 175.9 crores, this is an increase of 21.7% compared to H1 FY'23. PAT for Q2 FY'24 was at Rs. 82.8 crores resulting in a 15.4% growth compared to Q2 FY'23 and 11.1% de-growth compared to Q1 FY'24.

Abrasives

Abrasives consolidated revenue for H1 FY'24 was Rs. 1,029 crores growing at 3.2% compared to H1 FY'23. Abrasive consolidated revenue for the quarter grew 5% to Rs. 510 crores compared to Rs. 484 crores in Q2 of the last year that de-grew by 1.6% sequentially. H1 FY'24 standalone Abrasive was at Rs. 568 crores and grew by 4.1% compared to H1 FY'23. Standalone Abrasives grew by 3.4% to Rs. 285 quarter-over-quarter and almost flat sequentially.

Our subsidiary in America grew at H1, Q2 and sequentially, very healthy. VAW H1FY'24 grew 22% in Rouble terms, however in INR this itself is a decrease of 7.3%. H1 FY'23, Rouble to INR was converted at 1.24 whereas H1 FY'24 Rouble to INR is converted at 0.94, quarter-over-quarter growth in Rouble was also good at 24%.

RHODIUS in Q2 achieved the net sales of €15.2 million compared to €14.2 million in Q2 of FY'23 and €15.5 million in Q1 of the current year. We communicated in the last call that the RHODIUS is planning to be flattish at top-line due to softening of the demand, parts of Europe and competitive pricing in the market. We still maintain the same expectation the price increase put up to offset the cost which resulted in lower order intake which impacted the overall sales.

On a YTD basis sales de-grew by 5% to €30.7 million from €32. 2 million during the last year. We delivered a loss of 4.7 million which included one-off cost of €2 million and a PTA write-off of Rs. 2.8 million. On a YTD basis, we are at a loss of €1.4 million against €2 million during the last year, which means losses are coming down. As said during our last call, we expect in the full year a similar loss in line with that of the last year due to softening demand and an increase in energy costs. We are maintaining our forecast. This is our current outlook and we will have another six months to explore anything better.

Coming to AWUKO's performance this quarter, we achieved €1.9 million, sales against €2.5 million in Q1 of the current quarter and €1.95 million in Q2 of the last year. Losses in Q2 was €0.86 million against the loss of €0.7 million in Q1 of FY'24 and €0.5 million in Q2 of last year.

On YTD basis, we achieved €4.4 million sales, which is 3% lower compared to the last year and the losses at €1.6 million against €1.1 million during the last year. As communicated earlier, we expect the losses in FY'24 will be around €2.5 million. We expect AWUKO to breakeven by FY'25. We maintain the same outlook.

Standalone Abrasives, in India, we have grown 4% compared to H1 of the last year. There has been good growth in terms of the volume in Industrial Segment and Precision Segments, almost close to a double-digit growth. However, in Retail segment, we are facing challenges after increases in supplies from China, and new entrants in the segment.

Better realisation and softening in input costs has helped us to reach the margins to the previous level of 16% in H1 FY'24 which was at 12.3% in H1 of the last year. We expect to hit overall 8% to 10% growth in the full year as told during the previous earnings call. The focus has been on improving margins through product mix optimisation, increasing sales in value-added products and improving internal efficiencies.

Consolidated PBIT of H1 FY'24 was at Rs. 68.3 crores compared to Rs. 45.9 crores resulting in margin improvement from 4.6% to 6.6%. Q2 FY'24 PBIT was Rs. 37 crores against Rs. 28 crores in Q2 of the last year and Rs. 31 crores in Q1 of the current year. The increase predominantly coming from standalone margin movement from 12.3% to 16%, better performance at Sterling, America, VAW, lower losses at RHODIUS and closure of China helped to achieve this.

Electrominerals

Electrominerals on a consolidated basis for H1 FY'24 had a sales of Rs. 796 crores compared to Rs. 816 crores in H1 FY'23. Electrominerals consolidated revenue for the quarter was Rs. 377 crores versus Rs. 410 crores in Q2 of the last year, resulting in a decrease of 8% as it de-grew 10% sequentially.

Standalone Electrominerals for H1 FY'24 was Rs. 390 crores and it grew by 11%, de-grew at 2% sequentially, but grew at 12% quarter-over-quarter. At H1, volume growth in alumina and refractories are in high teens. However, price dropped due to dumping by Chinese producers. The strength is witnessed in many geographies and we will stay focused on volume growth. We expect price stability will come, margins could be under pressure, under stress in the interim.

Coming to the performance of VAW, the performance has been good in local currency and delivered its higher ever quarterly sales of 2.5 billion Roubles in this quarter compared to 1.86 million Rouble in Q2 of the last year. Also, in H1 basis sales grew by 24% to Rouble 4.9 billion. Operations are running well and there has been an increase in sales volume compared to last year, 4% in silicon carbide and 18% in abrasives, 10% in refractories. Also, price realisations are better compared to previous years. When converted to INR the story looks a little different and shows downward performance because of a stronger Rouble during Q2 of the last year where it was at one Rouble equivalent to 1.33 whereas it has become much weaker at 1.01 in Q1 FY'24 and 0.88 in Q2, FY'24. We delivered a profit of Rouble 418 million, same as during Q1 of the current year against 236 million Roubles during Q2 over the last year.

On YTD basis, profit increased significantly to 835 million Rouble compared to 461 million during last year. For H1, Roubles were converted on average one Rouble which is equivalent to 0.94 for this year compared to 1.24 during H1 of FY'23.

Capacity utilisation is normal when they are able to sell more in Russia and on YTD basis, the mix to our session sales volume from domestically has increased to 59% compared to 55% during the last year.

VAW is able to collect all its receivable, they continue to be debt-free and outlook remains stable and positive.

Foskor Zirconia, FZL's lower sales in Q2 of '24, FY'24 is majorly on account of postponement of offtake by the Top Three customers and price pressure from Chinese supplies. The team is confident to compensate in the second half of the year and expects a similar top-line as that of last year.

Overall, for the quarter PBIT at consolidated level was at Rs. 62 crores against Rs. 69 crores in Q2 of the last year and Rs. 74 crores in Q1 of the current financial year. On a YTD basis it grew by 6% to Rs. 136 crores. Standalone margins significantly impacted during the first half of the year compared to the previous year mainly because of dumping by China.

Ceramics

Consolidated Ceramics in H1 FY'24 grew by 11% to Rs. 552 crores. Q2 FY'24 were higher by 4% at Rs. 265 crores as against Rs. 254 crores in Q2 FY'23 of the last year, sequentially de-grew by 8% percent.

Standalone Ceramics at H1 FY24 grew by 11% to Rs. 448 crores compared to H1 FY'23. Q2 FY'24 sales of Ceramics were Rs. 217 crores, growing 3% quarter-over-quarter and 6% de-growth sequentially.

The Refractories, Wear Ceramics, Metallised Cylinder business grew in H1 FY'24 very well in high teens. Delay in offtake in Engineered Ceramic business resulted in 11% growth as of H1 FY'24. Subsidiaries in Australia and America registered a significant growth.

Profit before finance costs and tax at consolidated level for H1 FY'24 was Rs. 154.7 crores growing at 26% compared to H1 FY'23; Q2 FY'24, PBIT was Rs. 74 crores growing by 14% quarter-on-quarter basis, but de-grew 9% sequentially at consolidated level. The PBIT margin has improved from 24.7% in H1 FY'23 to 28% in the current financial year. All companies in the segment contributed to margin improvement.

Now I request our CFO – Mr. Padmanabhan to cover PBIT margin, debt positions, cash flow and CAPEX.

P. Padmanabhan: Consolidated PBIT margin improved from 10.5% in H1 of last year to 12.8% in the current year, mainly driven by three segments. PBIT margin for the quarter improved from 11.3% to 12.6% in the current quarter, dropped by 40 basis points sequentially. On a quarter-over-quarter basis margins have improved in Abrasive and Ceramic segments, with a marginal drop in Electrominerals margin. On sequential basis margin improved for Abrasive but dropped marginally in Electrominerals and Ceramics.

At the standalone basis margins have improved from 16.3% to 17.9% in H1 of current financial year, this is majorly driven by Abrasive, then Ceramics, but drop in Electrominerals segment. PBIT margin for the quarter improved from 16.3% to 17.2% in the current quarter and dropped 130 basis points sequentially. The margin improvement was contributed by Abrasives and Ceramics quarter-over-quarter, whereas on a sequential basis the un-allocable expenses increase, brought down the overall margin, but broadly all the segmental performance is good.

On the Abrasive front on H1 basis, PBIT margins improved from 4.6% to 6.6% at consolidated level, majorly contributed by standalone business increasing margin from 12.3% to 16%. At the consolidated level PBIT margin for the quarter improved from 5.8% to 7.3% in the current quarter, and also improved by 130 basis points sequentially. This was due to increase in the margins of standalone business from 12.5% to 16.7% in the current quarter on back of better realization and softening in the input cost. Standalone Abrasives margins improved by 150 basis points sequentially. Also, the losses coming down in RHODIUS contributed to improvement in margins.

On Electrominerals in H1 at consolidated level PBIT margins have improved from 15.7% during last year to 17% in the current, majorly contributed by the Russian subsidiary on account of higher volumes and better realisation. The margins of standalone business dropped significantly from 16.3% to 11.7% mainly because of the dumping by China, even though volume pickup is there. For the quarter PBIT margins at consol level dropped from 16.9% to 16.3% quarter-over-quarter basis, and also dropped 140 basis points sequentially. The margins of standalone business dropped significantly from 15.8% to 11.9% in the current quarter. However, it was better by 40 basis points sequentially.

In respect of the Ceramics business, at the consolidated level for H1, PBIT margins improved from 24.7% to 28%. Standalone Ceramics improved from 24.4% to 26.6%.

American subsidiary did significantly well compared to last year, the margins of Australian subsidiary has also improved. For the quarter PBIT margins at consol level improved from 25.4% to 27.8% quarter-on-quarter basis but dropped 40 basis points sequentially. The margins of standalone business improved from 25.5% to 26.2% in the current quarter but dropped by 65 basis points sequentially. The higher volumes and better product mix contributed to the higher margins compared to last year.

On the debt position there was Rs. 23 crores of debt at the standalone books and the total debt on consolidated basis was Rs. 140 crores compared to Rs. 178 crores as of June 2023. The debt-to-equity ratio was at 0.05 at consolidated level. Cash and cash equivalent, net of borrowings was at surplus of Rs. 221 crores meaning the net debt after adjusting for cash equivalents is almost zero.

CAPEX spends so far at consolidated level is Rs. 97 crores and we expect for the full year '24, we will be incurring a CAPEX of around Rs. 260 to Rs. 280 crores as against Rs. 300 crores as was communicated earlier.

Our free cash flows for H1 in the current year at consolidated level is 69% of PAT compared to (-126%) of PAT in last year first half. At standalone level it is also at 68% of PAT compared to (-49%) of PAT in H1 of last year. This is mainly on account of significantly higher net cash flow, inflow from operations compared to last year. Standalone Rs. 22 crores in H1 FY23 to Rs. 150 crores in H1 FY24 and consolidated Rs. (-38) crores to Rs.243 Cr in the current quarter, mainly because of better working capital management and lower CAPEX spend compared to previous year.

I would now request Mr. Sridharan to summarise.

Sridharan Rangarajan: I would like to summarise the following 10 to 12 points.

CUMI achieved consolidated sales of Rs. 2,314 crores in H1 FY'24 and a PBIT of Rs. 296 crores with PBIT margin of 12.8%. Sales grew at 3.1% but PBIT grew by 25.3%, PBIT margin improved by 230 bps. It is important to bring the perspective of VAW here, VAW grow in H1 FY'24 in Rouble terms 24%, however in INR terms there is a degrowth of 6%. As the exchange rate remains the same, overall growth of CUMI in H1 would be 9.6% to 10%.

CUMI remains a debt free Company, CUMI's free cash generation is very good, free cash to PAT at 69%. The overall performance of the Company during the first half of year is good. Volume and price growth is good in Refractories, Ceramics and Electrominerals. Major portions of the Abrasive business, volume growth is very good.

We need to focus on the standalone Retail segment that will be our focus for the coming few quarters. We feel standalone growth could be in the range of 10% to 12% against what we communicated last time at 15%. And consolidated could be in the range of 5% against earlier forecast of 10%, largely because of the exchange impact of Rouble. Standalone and consolidated PBIT margins compared to FY'23 should improve.

With that we will end the opening remarks and open up for questions answer session. Thank you.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Ravi Swaminathan from Avendus Spark. Please go ahead.

Ravi Swaminathan: My first question is with respect to the Abrasive business Retail segments, which are the sectors which are slowing the growth with respect to this particular sub-segment? And same is the case with Engineered Ceramics also, so which other sectors which are seeing a slowdown in terms of overall growth, which is drying our growth of both categories?

Sridharan Rangarajan: First of all, I would say there is no slowdown in the sector. What is happening in Retail is competitive pressure of price dumping by Chinese competition, as well as some of the people outside of the traditional Abrasive business coming into Abrasive business, particularly on the lower end of the business to leverage their distribution trend, which I am now referring to paint business which I think we have been talking for quite some time, that is what is happening and not a degrowth of a particular industry or sector.

Similarly, on the Engineered Ceramics side also there is no degrowth of the industry or a sector. What is happening is a particular customer trying to clear their inventory as well as switching from one model to the other model, is basically slowing down their order intake from us. They have communicated this and we are recalibrating it and we expect things to become normal, which we have already considered in our forecast.

Ravi Swaminathan: And you had talked about Chinese competition or dumping in both the Abrasives and the Electrominerals segment. This is something incrementally I think the reference has gone up over the past few quarters. So, how intense is the competition, is it almost back to pre-COVID levels? How should we think in terms of profitability, given the fact that usually Chinese products are very aggressive in terms of pricing and therefore, can it have an impact on the profitability, especially on the Electrominerals segment?

Sridharan Rangarajan: The trend of Chinese competition we are witnessing not just in India across various geographies and across many sectors, not only in Abrasive, Electrominerals, Ceramics, you could see the same thing in electronics, you could the same thing in auto parts, many sectors. Some sectors, they are also reversal of the trend by Chinese competition, increasing the price.

I was just telling that the Chinese competition is there, not only in our business, but across various different business. You know what's happening in China, so there is always a pressure from their business to sustain we are trying all our best. We have also witnessed sectors where they have reversed their trend, they used to work on a no-profit basis, then went to no-cash basis, then they are reversing that trend. I don't think they can keep doing this beyond a point. So, I feel that we will continue our trend of holding our volume, which is what we did in our Electro-mineral business. As I said, we have double-digit volume growth in Electro-mineral business domestically and we will continue that strategy.

And I think we are also equally working on bringing costs down, which I think to some extent volume growth helps us to bring the cost down. I feel that we need to give a few more quarters to see how this trend will continue.

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

Bhavin Vithlani: The question is on Ceramics, if you could dissect the segment between the three refractory segment, Wear Ceramic part and the Engineered part, and give us a growth of, what's the growth in the 2nd Quarter and the first.

And you mentioned some destocking and changeover to a new model by the customer. So, how long is this period going to be? And how do you see the growth here because this is a segment where you have been guiding for a 25% growth so the slowdown to 4% seems a little too stark.

Sridharan Rangarajan: I think as I told in my opening remarks, I think in refractories we are growing at volume and price at double digit and we are also growing well in Wear Ceramics and Metalised Ceramics, again both volume and price in double-digit. Engineer Ceramics is where we have blip, which I feel that as I explained to you it could take a couple of quarters more before they readjust their destocking and getting into the new model position. And then we will be back. And I think this has been communicated. They are working with us in this manner. So, I don't think we have a surprise, we know that this is happening, and they have been communicating and working with us, including the new model development. So, we should be back I don't think; it's a temporary blip.

Bhavin Vithlani: Just a follow up on this, because the earlier calls, the guidance was that we can see it's not arithmetic, but geometric growth in the Ceramics largely driven by the new energy segment. So, would we see that after a couple of quarters where there is a changeover from a Model A to Model B, we would catch up and more than make up for the growth.

Sridharan Rangarajan: Broadly, I would say see Ceramics we have been growing at a CAGR of somewhere in the range of 20% plus, right. And I don't see a reason why that should drop. And as I said that our America business, Australia business, India business, all firing well and some of the areas that we are working on is doing fine. So, I think those type of trends should continue is what I feel.

Bhavin Vithlani: On the Abrasive side, the industry has gone for anti-dumping request to the government, especially due to the Chinese dumping and you also mentioned about this. So, is there any progress on that front? And in terms of pricing how different is the pricing of the large, organised players like yourself and GNO versus the Chinese and the kind of cost action that you mentioned how much can that help you to regain the lost market share?

Sridharan Rangarajan: We did represent through the proper channels on the price dumping methodologies and put up our case as an industry. And I think one set of the government supported this and recommended a set of actions. But the other set of the government did not take this on and proceeded with it. So, that is a reality, but we will continue our pursuit. And we feel that I think this cannot continue long. And I feel that a certain amount of this interim challenge we must face, and we will get back as a business.

Bhavin Vithlani: In the Annual Report, you did speak about positive progress on the high-purity SiC and the high-purity graphite graphene, which one part will be used for the electronics semiconductors and others for the battery part. If you could just help us with the progress so far and where are we in that journey? And how much acceleration to the growth could we expect once we are able to commercialise this?

Sridharan Rangarajan: Mr. Bhavin, I did talk about this in the last call, and I want to reiterate our position clearly here. This is a three-to-five-year work, I think it will take time. It would be difficult to update quarterly progress, but what we can tell is largely that we have established a high-end purity level. We are able to produce products. We have done testing on the quality of our product; we have grown crystals out of that we have wafered products out of a crystal that is grown. And the qualities of them are all meeting the standards. We are working and progressing in this direction. And I would defer to future actions only when we get into a clear position of what we can do with that. That's where I would give you a broad idea.

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

Harshit Patel: My first question is on VAW. What would be the current realisations for silicon carbide vis-à-vis the full year FY'23? As you have mentioned, there has been an increase in the overall realisations. This is a bit surprising given that even the realisations are falling in the domestic Alumina business. Even globally, most of the commodity prices are falling, including that of Electrominerals. So, how is it that we have been able to post a growth in the realisations over there?

Sridharan Rangarajan: Mr. Harshit, I think we are talking silicon carbide, which is totally different to Alumina. And as far as our competitiveness in VAW, as I said that we have a capability to produce at the best cost possible in the world and capability to swing the mix between domestic and export out of Russia. and that makes this product reasonably capable of putting up prices, as well as some extent of let's say for example when you sell products in Dollar and Euro, then as we saw that some of the depreciation of Rouble coming through so obviously, there is going to be a price realisation change that would also come through, because of the exchange gain that in Rouble terms that what we would have. But we see that even in terms of the Dollar pricing, as well as Rouble pricing, there is a small I would say, a small drop in terms of the Dollar and Euro pricing, probably really very small drop, but the realisation in Rouble is really strengthening. So, this is how it's happening.

Harshit Patel: My second question is on the Abrasives. Have we taken any pricing actions in the last two to three quarters either on the upward or downwards or are we maintaining the same prices? Is there a possibility of downward revision, given that the RM cost pressures have broadly come off now? If that is the situation, then what explains such a huge jump in the standalone margins? Is there any impact from the product mixing as well, given that we have posted more than 16.5% margins, which are very different from what we have been doing in the past few quarters?

Sridharan Rangarajan: So, I think we should look at Abrasive in the lens of last say three, four years we have been posting a 15% to 16% PBIT margin. There was a drop because of the cost push and then capability to put up the price and realise that which was happening in last year and that's how you are seeing a lower PBIT margin coming through and we have been telling that we are taking respective actions on that. And that's what we are able to get back to our normal level of PBIT margin.

Second is the mix between Precision and Industrial versus Retail also is helping us to some extent, a better PBIT margin.

Coming to your question of, are we putting the price upward or downward? We are trying to do and adjust our price according to the market as our aim is to secure volume and this is where we would focus on and as I was just saying in my opening remark, we are doing well in Precision, we are doing well in Industrial, our challenge largely remains in the Retail segment.

Harshit Patel: Just a last small book-keeping question, the unallocable expenses below PBIT have jumped quite sharply in the last two quarters. We thought that this would taper off since the majority of integration process of AWUKO and RHODIUS would have been over by now. So, how should we read this?

Sridharan Rangarajan: No, I think some of the unallocable expenses at the YTD level is comparable to the last year. I don't think it's any different. Let me just take my note for a second. I think YTD, Q2 was Rs. 50 crores and YTD Q2 this year is at Rs. 51.5 crores, it's very much in line.

Harshit Patel: We thought this would taper off actually given that the integration processes are broadly over of the German acquisitions. So, that is why ?

Sridharan Rangarajan: This should continue, I think last time also at the beginning of I would say two, three calls before I was telling that the trend should continue, I don't think it should taper off. We will probably at the end of the year we will give more guidance on the next year.

Moderator: Thank you. The next question is from the line of Raj Shah from Marcellus Investment Managers. Please go ahead.

Raj Shah: So, my question is again on the standalone Abrasive side, in the opening remarks you mentioned about new entrants that are coming in the market. The question was how serious are these players? And who are these players? How impactful is their presence for our Retail segment ?

Sridharan Rangarajan: Mr. Raj, I think we talked about this, largely it's the paint sector where, as you know, that paint business is also going through a bit of a high degree of competition and each of the paint majors are looking for opportunities to diversify and one of the opportunities for them is to make use of their distribution channel, which is the hardware paint counters, mainly paint counters, where Abrasive products are put through like sheets, rolls and those products are put through.

So, these are the players who are what we referred to as new entrants and this is quite expected and normal for any business, which has got a good degree of leverage to make use of it. But I think we will stay focused on our core business, our capability of product strength, innovation and the distribution strength that what we have built, plus working with customers in Industrial and Precision will continue. But we will see, we are cognizant of this competition, we are working towards responding to this competition. And this is where I said that an impact on the Retail segment is there.

Moderator: Thank you. The next question is from the line of Amit Anwani from Prabhudas Lilladher. Please go ahead.

Amit Anwani: My first question is on AWUKO and RHODIUS. So, AWUKO, this quarter we did some 0.86 million losses versus 0.7 million, which actually widened. So, just wanted to understand from you are we on track on the long-term plans on these two subsidiaries, you guided breakeven for AWUKO by next year and I think 12% to 13% margin for RHODIUS by FY'26, so just wanted to have an update on these two subsidiaries.

Sridharan Rangarajan: So, AWUKO breakeven at FY'25, we are still working on that, that's our current forecast, as I mentioned in my opening remarks. PBIT margin getting back to 12% for RHODIUS by FY'27 is still very much on track from our side.

Amit Anwani: My question on Retail Abrasives which you already did highlighted, but you did mention that you are expecting to come back here and the growth in standalone Abrasive you are confident of some 8% to 10%. So, how are we dealing this Chinese competition which you already did highlight? And what would be our strategy that we are confident of growth despite these challenges here?

Sridharan Rangarajan: I think we are expanding our Retail network. So, like say some of the geographies that currently we are not that much present, we are expanding it. We are putting more feet on the street. We are investing on the technology in terms of connect, and then how do you work with the retail counters and even like perhaps painters, artisans, that kind of a connect. We expect this type of work would take about 18 months to 24 months in terms of making these changes significant result to come up and I think because of our knowledge and expertise in the core Abrasive business, we will be able to do this. And we should do that and that is the right way of responding to competition like this. So, that's the strategy that we will work on.

Amit Anwani: My last question on Electrominerals, Synthetic Brown Fused Alumina used to be one of the breakthroughs couple of quarters back. If you would like to highlight how was the contribution and growth here? And also, same thing for the SOFC how is the contribution in growth, this quarter and any update for upcoming quarters here?

Sridharan Rangarajan: As I said that I think when I talked about Aluminas which covered including the synthetic alumina where we are securing very good volume growth and I think, as I said that the price pressure which is a mix of competition plus the Chinese dumping, which is what is causing this we expect that this trend should reverse. It is difficult to put up a broad timeline, but I think I expect they should come back.

Amit Anwani: How was the contribution from SOFC.

Sridharan Rangarajan: So, Solid Oxide Fuel Cell, is that what you are referring to?

Amit Anwani: Yes, right sir.

Sridharan Rangarajan: They are doing fine. And I think we are continuing our good work there.

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

Mohit Pandey: First question is, again, on Engineered Ceramics. So, you mentioned one of the key customers moving from Product A to B, just wanted to clarify if you have certifications in place to cater to Product B as well or that is something you have to work on over the next two quarters.

Sridharan Rangarajan: I think we have been working with them in co-creating this Product B. So, it's work that has been going on with customers. So, as soon as they launch, we should also be in a position to start something.

Mohit Pandey: And secondly margins were quite strong despite the deceleration in growth on the Ceramic side. So, once the growth comes back to the earlier trajectory after say a couple of quarters, is 30% kind of margins a possibility in Ceramic?

Sridharan Rangarajan: So, as I said of the entire bouquet of Ceramics business there is one segment where we have, let's say the harder postponement, etc. and once those volumes comes our margin should improve and I am not in a position to comment whether we will hit 30% or not -- currently let's say we are doing in the range of about 27%, 28% I think that should continue and probably slightly improve upon.

Mohit Pandey: The last question is on the CAPEX; I think in the opening remark it was mentioned CAPEX of Rs. 260 crores, Rs. 280 crores versus Rs. 300 crores earlier guidance. So, where is the reduction coming from, which businesses, if you could put some light there?

Sridharan Rangarajan: We said Rs. 260 crores to Rs. 280 crores I don't think there is any particular deferment, but I think when you execute a CAPEX sometimes the delay in execution will also come in play and we will not be in a position to capitalise within the timeframe that we are looking at. That is what it is, there is no let's say that we are deferring a particular CAPEX program etc.

Moderator: Thank you. The next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.

Charanjit Singh: Specifically on the Abrasives market, if you can touch upon now Chinese and these new paint players who are coming into the market, what percentage of the market they will be addressing? And right now in terms of the mix of Precision and Industrial and Retail, what is that mix for us right now?

Sridharan Rangarajan: They are about 70% is our mix, 30% is Retail. This is our mix and I think probably the market should represent close to that. And in that these are the new players coming and working on it, in certain select segments within that 30%.

Charanjit Singh: So, is it a correct understanding that these new players and the Chinese players are participating mainly in this 30% of the market?

Sridharan Rangarajan: Yes.

Charanjit Singh: And do you see the paint players also scaling up in the Industrial segment with the kind of capabilities and their understanding is there?

Sridharan Rangarajan: It's like we want to enter into let's say a paint business or any other business, it’s going to be tough for anyone to change and get the knowledge and expertise required in particular business.

It's not impossible, but I am just saying. But whereas in Retail on the low level on the sheets, rolls, mainly working on a traded product using their reach that is what is the current focus of those people.

Charanjit Singh: So, in terms of the realisation how do you see the realisation now moving forward in the Abrasives market? Do you see further pressure in the pricing or now the prices should stabilise any thoughts there?

Sridharan Rangarajan: So, in the Retail, I feel that competition would continue and there will be interim price pressure. But in Industrial and Precision, which is largely working with customers, working with an application winning through that is largely a function of how well they benefit out of our product. So, there could be a price pressure on the Retail side.

Charanjit Singh: Lastly, on the met cylinder, if you can just give us any update in terms of how is that market performing, because a large part is exports within that market and what is the future outlook there?

Sridharan Rangarajan: So, as I said in earlier question, we are doing well in Metallised Cylinder segment. The growth is very good, and we are performing well. We are probably the number two player in the world and we are doing it well.

Moderator: Thank you. The next question is from Saif Gujjar from ICICI Mutual Fund. Please go ahead.

Saif Gujjar: So, I have two questions regarding VAW, that is our Russian subsidiaries. First how much would be domestic and external sales breakup for first half?

Sridharan Rangarajan: 59% is domestic.

Saif Gujjar: And out of the remaining 41%, what would be the exposure, it will be mainly Euro or Dollars?

Sridharan Rangarajan: It's a mix of I don't think any particular, it depends on some Euro country also starts paying in Dollar. It depends on the customer to customer.

Saif Gujjar: Just a follow up on the VAW, so for the first half of this year, if you can give us the numbers regarding PBIT for VAW for first half, along with the cash flow generated from operations. And how is the same getting allocated, in terms of dividend payout to CUMI or CAPEX or Debt Repayment for first half?

Sridharan Rangarajan: So, as far as the dividend payment, it happens once a year and that could happen sometime June, July of next year. But as far as the PBIT is concerned for the first half, I think I mentioned in my call, it's about 1.1 billion rouble versus 663k rouble of the last year.

Saif Gujjar: And so are we able to repatriate it fully or are there some restrictions going ahead?

Sridharan Rangarajan: No issues so far.

Moderator: Thank you very much. We have one last question. The last question is from the line of Prolin Nandu from Goldfish Capital. Please go ahead.

Prolin Nandu: Two questions from my side, one is on the Retail Abrasive segment. There again, I mean, lots of questions on that. You mentioned two types of competition. One is Chinese, which is probably gaining on price and other is paints, which is probably gaining on distribution. But when it comes to quality, I think our quality of these Retail products would be far superior. So, in terms of the market trend changing and people using better quality products, how is that trend? And do you think that I mean during COVID when Chinese competition was not there, there were some people who had shifted to products of higher quality have they now shifted back because of pressures in their business? And going forward, how do you a shift towards quality production, which will benefit us in the three to five years' time?

Sridharan Rangarajan: I think I would say in a window that you are looking at three to five years where we need to rework our Retail reach and distribution model, I think quality will have a good play and people will start looking at their effort that they will put to use and either cut or grained and also the per piece cost that they would have, will all come into play and I think I feel that in the long run quality will have a play.

Prolin Nandu: And second question would be on your M&A strategy right, I mean how is the pipeline looking in terms of, I mean are there some companies that you are actively evaluating and given whatever is going on in the global market, do you think, I mean would there be something, asset available at a good price or would you like to probably wait for some calm in the market before you go ahead with the acquisition? Some color on your M&A strategy would help.

Sridharan Rangarajan: See if there are assets at a good price, we are always interested in looking at that and we as a player are looking at long term horizon, you know there could be some current geopolitical tensions, other things happening. But I think these things you can't figure out a decade where there was no geopolitical tension and issues always remained, not in this century, but even if you look back many centuries back as well. So, we are committed to our core business, and we feel that these areas are bound to grow and whenever a good opportunity comes, we will definitely look at it.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair: Thank you everyone and particularly the management for giving us the opportunity to host the call. Thank you very much sir and wishing you all the very best. Any closing remarks from your end, sir?

Sridharan Rangarajan: Well I think I just summarised and I would reiterate that the majority of the business volumes and price are there. There are select segments where we need to work. Retail Abrasive is one such segment where we need to really work, and we know what we should do and we are working towards that and I expect 18 months, 24 months the result starts playing out. Margins are good. Volumes are good. I restated, impact is there but I think, those are all things keep happening. But I think if you look at excluding that, I think broadly the business growth is in direction, cash flows are good and I think we continue to grow in that trajectory. And we feel that there could be some interim challenges like the ones that we are facing, but I think we will have programs to address this. We are confident about the guidance what I just said in the closing remark. Thank you and all the very best and wish you all a very Happy Diwali and be safe and healthy.

Moderator: Thank you very much on behalf of DAM Capital Advisors Limited. That concludes this conference. Thank you for joining us, ladies and gentlemen, you may now disconnect your lines.