"Carborundum Universal Limited Q3 FY2024 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Carborundum Universal Limited's Q3 FY 2024 Earnings Conference Call hosted by ICICI Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashwani Sharma. Thank you and over to you Sir!

Ashwani Sharma: Thank you Viren. Good morning everyone. On behalf of ICICI Securities I welcome you all for the Q3 FY2024 Earnings Conference Call of Carborundum Universal Limited. We thank the entire management of CUMI for giving us this opportunity again. Today from the management we have Mr. Sridharan Rangarajan – Managing Director, Mr. P. Padmanabhan Chief Financial Officer, Mr. G. Chandramouli, Advisor Investor Relations and Mr. Denesh Kumar, Senior Manager Strategic Planning. So we will start the call with opening remarks from the results and outlook by the management. Post that we can have the Q&A session. I now hand over the call to Mr. Rangarajan for his opening remarks. Thank you Sir and over to you!

G. Chandramouli: Good morning I am Chandramouli. Let us start the proceeding with the disclaimer clause. During the 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 management's current expectations and are associated with uncertainties and risks are more fully detailed in our annual report, which may cause the actual results to differ. Hence, these statements must be reviewed in conjunction with the risk that the company faces. Thank you very much.

Sridharan Rangarajan: Thank you Mouli and good morning to all of you. A very warm welcome to our third quarter and nine months' earnings call for FY2024. All of you are doing well and safe and healthy and in today's call I have with me Mr. Padmanabhan, our CFO; Chandramouli, our investor relationship support; Denesh, our strategic planning head. We will begin this call with providing an overview of the company's performance for the quarter and nine months and then open for your questions. Before I start sharing the business performance I am happy to share with you the news of CUMI announced as the best managed company in 2023 in India by Deloitte. They are running this programme worldwide in and around 45 countries. Deloitte started this programme in India three years back. This is an acknowledgement of good work done by team CUMI for many decades. I am very happy to share this achievement.

I will now start with the consolidated financial results. Consolidated sales for nine months of FY2024 were Rs.3445 Crores growing at 0.8% contributed by ceramics growing at 4.4%, abrasives growing at 3.2%, and electrominerals with a negative growth of 5.2%. Consolidated sales for Q3 FY2024 were at Rs.1130 Crores with a sequential growth of 0.6% and a degrowth of 3.6% quarter-over-quarter. Growth in Q3 FY2024 over Q3 FY2023 was contributed by 3.1% growth in abrasives, degrowth of 7.9% in ceramics and a degrowth of 10.6% in electrominerals. Q3 FY2024 performance compared to Q2 FY2024 was 0.6% mainly contributed with ceramics segment degrown at 8.1%.

It is important to bring the perspective of VAW here. VAW, our Russian subsidiary on YTD basis represents 20% of the consolidated CUMI. VAW grew 25% in nine months in Rouble terms; however, when translated in INR there is a degrowth of 9%. During the last year on YTD basis Rouble was converted into INR at 1.27 and in FY2024 on YTD basis Rouble is converted into INR at 0.92. Had the exchange rate remained the same, overall growth of CUMI on YTD basis would have been 8% instead of 0.8% we will discuss this in detail later.

PBIT for YTD FY2024 is at Rs.453.8 Crores with PBIT margin of 13.2% compared to PBIT of YTD FY2023 which was at Rs.383.8 Crores and a PBIT margin of 11.2% this is a growth of 18.2%. This was contributed by abrasive growth growing at 77.8%, ceramic growing at 13.6%, electrominerals with a degrowth of 11.7%.

PBIT for Q3 FY2024 was at Rs.157.9 Crores with a PBIT margin of 14% compared to PBIT for Q3 FY2023, which was at Rs.147.7 Crores with a PBIT margin of 12.6%, this represents a growth of 11.7% sequentially and 6.9% quarter-over-quarter.

Profit after tax on YTD basis for FY2024 was at Rs.326.4 Crores growing at 17.9% and profit after tax for Q3 FY2024 was at Rs.111.3 Crores growing at 9.2% sequentially and 2% compared to Q3 FY2023.

Now I will go standalone and then by segment, standalone grew by 5% to Rs.1937 Crores in nine months of FY2024 compared to last year. The growth was majorly driven by electrominerals at 7.2%, ceramic segment at 6%, and abrasive segment at 3.8%. The growth in Q3 FY2024 compared to Q3 FY2023 is almost flat at Rs.635 Crores and compared to Q2 FY2024 there was a degrowth of 1.4%.

PBIT on YTD basis was Rs.343 Crores with a PBIT margin of 17.7% which grew at 14.2% compared to PBIT of last year at Rs.300 Crores with a PBIT margin of 16.3%. The growth in PBIT margin came from abrasives, which grew at 31.7%, ceramics which grew at 10.3%, and a fall from electrominerals by 29.7%. Q3 FY2024 PBIT was Rs.110.2 Crores, PBIT margin of 17.4%, which grew at 7.3% compared to Q3 FY2023 and sequentially there was a degrowth of 0.4%.

Profit after tax on YTD basis was Rs.256.1 Crores; this is an increase of 18.1% compared to FY2023. Profit after tax for Q3 FY2024 was at Rs.80.15 Crores resulting in a 10.9% growth compared to Q3 FY2023 and 3.2% degrowth compared to Q2 FY2024.

I will now move on to segments. Abrasives consolidated revenue on YTD basis was Rs.1558 Crores growing at 3.2% compared to last year. If VAW's impact is considered the growth should have been at 5.8%. Abrasives consolidated revenue for the quarter grew 3.6% sequentially to Rs.529 Crores and 3.1% quarter-over-quarter.

On YTD basis standalone abrasives was Rs.858 Crores and grew by 3.8% compared to last year. Standalone abrasives grew by 3.2% to Rs.291 Crores quarter-over-quarter and 1.9% sequentially.

VAW on abrasive segment, on YTD basis sales grew by 24% in Rouble terms; however, in INR this resulted in a decrease of 9%. During the nine months FY2023 the Rouble was converted at 1.27 last year and this year is getting converted at 0.92.

RHODIUS in Q3 achieved net sales of €15.5 million compared to €14.9 million in Q3 FY2023 and €15.2 million in Q2 of the current year. On YTD basis the sales degrew by 2% to €46.2 million from €47.2 million during the last year. Due to softening of the demands in parts of the Europe there was a drop in volume to an extent of 8% while the mix and price enabled a 6% gain resulting in a net drop of 2%. On YTD basis the loss after tax at €2.1 million against the loss of €3.4 million during the last year, this means losses are coming down. We told earlier during our last earnings call that at full year basis a similar loss as that of the last year is what we expect. However, considering the better performance in Q3 and the positive outlook for Q4, we may lower the losses than earlier expected. The interesting point to note here is that if we exclude the PPA write-off of €2.1 million on YTD basis RHODIUS was close to breakeven operationally.

Coming to AWUKO's performance this quarter we achieved €2.3 million sales against €1.9 million in Q2 of the current year and €2.2 million in Q3 of the last year. Loss after tax in Q3 was €0.27 million against the loss of €1.36 million in Q3 of FY2023 and 0.86 million in Q2 of the current year. On YTD basis we achieved €6.6 million sales which is 3% lower compared to last year and losses at €1.86 million compared to €2.42 million during the last year. As communicated earlier we expect the losses in FY2024 will be around €2.5 million we expect AWUKO to break even by FY2025 we maintain the same outlook.

In America we had a good growth I think close to a double digit growth that we have.

Standalone abrasives on YTD basis we have grown 3.8% to Rs.858 Crores compared to last year. Industrial and precision segments had a good growth. Retail segment is below last year. As communicated earlier retail segment is impacted due to dumping from China and competition from new entrants. We are working on addressing these challenges and expect recovery in four to six quarters. On YTD basis the margin has improved significantly to 16.4% compared to 12.9% during the last year. Mainly on account of product mix, softening in input cost, improvement in operational efficiencies and better realization.

Consolidated abrasives to PBIT on YTD basis was at Rs.118 Crores compared to Rs.67 Crores resulting in margin improvement from 4.4% to 7.6%. This was mainly due to better performance in standalone which we just covered. RHODIUS and AWUKO we also looked at it slightly earlier. Q3 FY2024 PBIT was Rs.50 Crores against Rs.21 Crores in Q3 of the last year, Rs.37 Crores in Q2 of the current year, the increase predominantly coming from standalone margin moving from 12.9% to 16.4% and lower losses at RHODIUS and AWUKO.

I will now move on to electrominerals. Electrominerals on a consolidated basis for nine months FY2024 had sales of Rs.1164 Crores compared to Rs.1228 Crores during the last year. Electrominerals consolidated revenue for the quarter was Rs.369 Crores versus Rs.377 Crores in Q2 of the current year resulting in a decrease of 2.4% and it degrew 10.6% quarter-over-quarter.

I will move to the standalone electrominerals. For nine months of FY2024 we had Rs.562 Crores and it grew by 7.2% compared to last year. The revenue for the quarter was Rs.172 Crores versus Rs.173 Crores in Q3 over the last year and degrew 10.6% sequentially. On YTD basis the volume growth in alumina was very high teens and SiC double digit has been good but price realization was hit largely due to the dumping by Chinese product. Price realization was hit almost by 9%. Hence we could not get the benefit of increased volume in sales. Our focus will continue to secure volumes. We expect the short term price pressure to continue.

VAW, now I will cover the performance of VAW sales for Q3 FY2024. In local currency, it grew by 26% to Rouble 2.47 billion compared to Q3 FY2023 and degrew by 2% compared to Q2 of the current financial year. On YTD basis sales grew by 25% to Rouble 7.4 billion, 19% due to mix, exchange and price realization and 6% because of the volume. The operations are running well and there has been an increase in sales volumes compared to last year. When converted to INR the story looks different and shows downward performance because of the stronger Rouble during the last year where it was one Rouble equivalent to 1.27 on an average for the first nine months whereas it has become much weaker at 0.92 this year. They delivered a profit of 392 million Rouble in Q3 FY2024 against Rouble 411 million during the same period last year. On YTD basis profit increased to Rouble 1.2 billion compared to 890 million during the last year. Capacity utilization is very good, they are able to sell more in Russia, the mix is now moving to 58% domestic, which used to be 45% pre Russia-Ukraine conflict.

Foskor Zirconia on YTD basis, Foskor had lower sales of 23% compared to last year. This is a volume reduction. This is mainly on account of postponement of offtake by three top customers and price pressure from Chinese supplies. Sales in Q3 FY2024 had improved compared to Q2. We expect Q4 to be better, we expect Q4 to be normal and we are working towards improving the sales volume and expect a normal business in FY2025. We are confident of achieving this one. Orders backlog that we hold as of now for Q4 tells us that it will be a normal Q4.

Overall Electrominerals on YTD basis PBIT was Rs.186 Crores compared to Rs.210 Crores compared to last year, this is a degrowth of 11.7% this is due to the impact of Rs.25 Crores in standalone and Rs.17 Crores in Foskor Zirconia we will cover this more in detail later. For the quarter PBIT at consolidated level was Rs.50 Crores against Rs.62 Crores in Q2 of the current year and Rs.82 Crores in Q3 of the last financial year.

I will move to ceramics. Consolidated ceramics on YTD basis for FY2024 grew by 4.4% to Rs.795 Crores. In Q3 FY2024 sales of ceramics was Rs.243 Crores against Rs.264 Crores in Q3 FY2023 and Rs.265 Crores in Q2 FY2024.

Standalone ceramics on YTD basis it grew by 6% to Rs.661 Crores compared to Rs.623 Crores during the last year. Refractory, wear ceramics and metallised cylinder business grew around 22% on YTD basis, but with the degrowth of engineered ceramics business the overall ceramic business segment resulted in a 6% growth. In Q3 FY2024 sales of ceramic was at Rs.213 Crores against Rs.219 Crores in Q3 FY2023 and Rs.217 Crores in Q2 FY2024.

Subsidiaries in Australia and America registered a very good growth.

Profit before finance cost and tax at consolidated level on YTD basis was Rs.215 Crores growing at 13.6% compared to last year. Q3 FY2024 PBIT was Rs.60 Crores a degrowth of 9.4% compared to Q3 of FY2024 and a degrowth of 18.5% compared to Q2 FY2024 at consolidated level. The PBIT margin has improved from 24.8% to 27% on YTD basis. All companies in this segment contributed to margin improvement.

Now I request Mr. Padmanabhan to cover PBIT margin, debt position, capex, cash flow and return on capital employed. Thank you.

P. Padmanabhan: Thank you. In respect of the PBIT margin at consolidated level on YTD basis it is at 13.2% in the current year compared to 11.2% during last year. This is mainly due to the better performance in abrasives and ceramics. PBIT margin for Q3 FY2024 was at 14% compared to 12.6% in Q3 of FY2023 and 12.6% in Q2 of current year. <u>Standalone</u>: on YTD basis standalone PBIT margin is at 17.7% in the current year compared to 16.3% during last year. This is majorly driven by abrasives from 12.9% to 16.4% then ceramics from 24.6 to 25.6% but there is a drop in electromineral segment from 16.1 to 10.5%. PBIT margin for the quarter improved from 16.2% in Q3 of last year to 17.4% in Q3 of the current year and improved by 17 BPS sequentially.

I will move on to the segments. In respect of the abrasive segments on YTD basis consolidated PBIT margins improved from 4.4% to 7.6% mainly contributed by standalone abrasive business, margins increasing from 12.9% to 16.4% and losses coming down in the German entities RHODIUS and AWUKO. At consolidated level PBIT margins for the quarter improved from 4% in Q3 of last year to 9.5% in Q3 of the current year, also improved by 221 basis points sequentially. This was due to the increase in margins of standalone business from 14.2% in Q3 of last year to 17.2% in Q3 of the current year, this is on back of the better realizations and improved operational efficiencies. Standalone abrasive margins improved by 50 basis points sequentially as well.

In respect of Electrominerals on YTD basis at consolidated level PBIT margins has decreased from 17.1% during last year to 16% in the current financial year. This drop is a result of standalone business and the South African subsidiaries performance. The margins of standalone business dropped from 16.1% to 10.5% on year-to-date basis volume growth in alumina and silicon carbide has been good; however, price realizations were lower due to dumping by the Chinese producers. This has resulted in drop in PBIT to the extent of around Rs.25 Crores. PBIT margins at consolidated level for Q3 of current year was at 13.7% dropping from PBIT margin of 20% in Q3 of last year. Sequentially it dropped by 264 basis points. The margins of standalone business dropped from 15.5% in Q3 of last year to 7.8% in Q3 of the current year and 410 basis points sequentially. The drop in margins is mainly due to the lower price realization despite securing higher volumes.

In respect of the ceramic segments on YTD basis consolidated PBIT margins improved from 24.8% to 27%, this is mainly contributed by standalone ceramics business margins increasing from 24.6% to 25.6%. American subsidiary did significantly well compared to last year. At consolidated level PBIT margins for the quarter dropped from 25.1% in Q3 of last year to 24.7% in Q3 of the current year and dropped by 314 basis points sequentially. The margins of the standalone business dropped from 25.1% in Q3 of last year to 23.7% in the current Q3 and by 259 basis points sequentially, this is mainly on account of the mix between the industrial ceramics and refractories and product mix within the industrial ceramics.

On the debt position, the standalone has no debt and it is a debt free company now and at the total debt at consolidated basis was at Rs.119 Crores compared to Rs.140 Crores as of September 2023. The debt equity ratio was at 0.04 at consolidated level. Cash and cash equivalent net of borrowings was at Rs.342 Crores.

Capex spend so far at consolidated level is Rs.154 Crores. At a full year the investment in capex programme was Rs.300 Crores at the consolidated level as communicated earlier. We expect for the full year we will be incurring capex of around Rs.240 to Rs.260 Crores.

In respect of cash flow or free cash flow on year-to-date basis during the current year at consolidated level is at 75 percentage of PAT compared to a -33% of PAT during last year. At standalone level it is at 80% of the PAT compared to 10% required during last year. This improvement is mainly on account of a significantly higher net cash inflow from operations and better working capital management compared to last year.

In respect of the return on capital employed on YTD basis at a consolidated level it is at 18.3% compared to 15.8% during last year. At standalone level, it is at 20.5% compared to 18.3% in last year. On year-on-year basis for consolidated businesses return on capital employed for ceramics has improved from 38.3% to 46.5%. For electrominerals, it has decreased from 29.9% to 27.1% and for abrasive it has improved from 6.6% to 11.4%. For standalone businesses the return on capital employed for ceramics has improved from 42.5% to 51.4%. For abrasives it has improved from 36.4% to 42.9%, but for Electrominerals it has decreased from 38.2% to 27%.

And in respect of the unallocable expenses, basically it is the difference between the income and the net at the other corporate level which is not included in the respective segments. The unallocable expense at the YTD level, there is a reduction of Rs.18.5 Crores. On a quarter-on-quarter basis there is a reduction of Rs.19.5 Crores and sequentially it was lower by Rs.27.38 Crores. The broad reasons are withholding tax related to the dividends from our Russian subsidiary accounted in FY2023 but not in the current year. That is why the difference is coming and the second reason is higher exchange gain in the current year and lower project-related employee cost and completion of the consultancy engagement in the last year itself. There is no similar expenditure in the current year. In respect of the standalone also, the there is a reduction in unallocable expenses on YTD basis the expense is lower by Rs.17.91 Crores, similarly quarter-on-quarter the expenses are lower by Rs.15.5 Crores and sequentially the expenses are lower by Rs.13.36 Crores. In all the three cases the broad reasons are higher dividend income in the current period. Lower project employee cost and completion of the professional engagement in the last year and these are all the reasons why the reductions.

Ashwani Sharma: I would now request Mr. Sridharan to summarize.

Sridharan Rangarajan: Thank you. I would like to end the opening remark with a small summary. In standalone business, volume and price growth is good in refractories, ceramics, industrial and precision abrasives. There is a good volume growth in core products in electromineral business. The price realization was impacted due to China dumping. Reasonable volume growth and strong price realization in Russia. South Africa was impacted by low order intake and partially by China dumping. We are confident in Q4 they would get back to normal sales. RHODIUS should breakeven excluding PPA, losses in AWUKO are lowering. CUMI America and Australia are doing well. Free cash flow to PAT is good and the company is debt free. PBIT margin of abrasive India was 12.9% during last year and we expect this could go up by 350 to 400 basis points. PBIT margin of consolidated abrasive will go up. Our expectation is 200 to 220 basis points. PBIT margin of ceramics in India was at 24.6% and it could be at the same level as the last year. PBIT margin of consolidated ceramics from 24.4% of last year, there could be a pickup of 150 to 180 basis points. PBIT margin of EMD will go down from 14% and we expect at least in the range of 350-400 basis points it will be lower. Overall PBIT margin last year was 11.8% could go up by 100 to 120 basis points. We feel standalone growth could be in the range of 5 to 6% as against what we communicated last time at 10 to 12% and consolidated sales could be flattish or marginal growth against 5% what was earlier shared. This is largely an impact of the exchange impact coming from Rouble.

In summary, major parts of the business, volume and price growth is there, margins are improving, good cash flows, recovery in Foskor is in place. Work needs to happen in abrasive domestic business. RHODIUS and AWUKO is on track. With this I will complete the opening remarks and will be happy to answer your questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We have our first question from the line of Bhoomika Nair from DAM Capital Advisors. Please go ahead.

Bhoomika Nair: Good morning Sir and thank you for the detailed opening remarks. Sir my first question is on ceramics if I see this quarter on both standalone and also on consolidated basis there has been a decline in the revenues I remember the previous quarter you had highlighted there was some inventory correction which was happening by the client so just wanted to understand what is the status of that right now and how should we look at the ceramics business going forward given that we are doing a lot of initiatives to grow the same and also if you can talk about how metallised cylinders and wear ceramics are also performing out here. That is my first question.

Sridharan Rangarajan: Thank you Bhoomika. I think it is a good question and concern. As we said earlier it was one customer inventory correction that they were going through, which I think is what currently we are facing that is why in my opening remark also we said there is a growth which is substantially high at about 22% in all other business segment of the ceramics and a degrowth in engineered ceramics which cost the overall growth of 6%. We believe that once this correction which I think would get addressed by this year we will get back to an overall growth of 20 plus percentage as normal that we used to have in the past.

Bhoomika Nair: Sir can we quantify what is the decline in the engineered ceramics in some manner so that we get a sense of what is being the 22% kind of a growth, what is the base number that it can possibly decline to?

Sridharan Rangarajan: 22% is the growth in rest of the ceramic business, metallised cylinders, wear ceramics, those are the businesses which are growing at 22% while this is having a degrowth. We expect this correction to get completed and in the next year we will have overall growth of about 20 plus percentage.

Bhoomika Nair: The question is that from here into the fourth quarter will there be a further decline in the ceramics revenues you think or is this quarter your thing that this is bottom and should not decline further from here?

Sridharan Rangarajan: I do not think we expect further decline. I think we already have seen all the corrections, etc., so it should be fine and I do not think we would get back to any further challenges coming in.

Bhoomika Nair: Understood. So the other question is on the EMD segment, you said and spoke about the Chinese competition and the dumping which is impacting pricing both in India and also in Africa, as that been a fairly weak couple of quarters out there because of this aspect, are we seeing further reduction in prices out here or if you can just give some trend on how the SiC prices are trending and how are we trying to contain this so that our profitability does not decline on an overall basis?

Sridharan Rangarajan: So I think we have first of all good volume growth both in alumina as well as in silicon carbide. Our aim is to definitely secure volumes and we do not want to lose any opportunity that is we are very clear but the unusual price dumping is what is causing the current problem and that is how the margins of the electromineral is going down, but I expect that as a business they have probably bottomed out, but I am not saying that the Chinese are going to stop further dumping. We expect this trend to continue maybe for the next four to six quarters we need to wait and watch. Largely this is not a situation that we are seeing only in India we are seeing this across the globe and I am sure you guys notice this across industries as well it is just not in our industry, so that is why I said that the price pressure will continue. We feel that we have bottomed out, there could be some minor change, but I do not think it will go any further down. So last year we ended at 14% PBIT margin and this year we could end the range of about 10% and let us say if you look at the Q3 we were lower because there are some mix play also is there, but I think 10 to 12% is something we should expect.

Bhoomika Nair: On the VAW side because obviously there has been also a further impact on the consolidated basis because of the Rouble translation so how should we look in terms of VAW revenue is growing they have obviously done very well as you mentioned almost 26% kind of growth for the current quarter in Rouble terms, so how should we look on consolidated basis for VAW to continue doing well and any update on both in VAW and in India on the specialty which can offset some bit of this impact of the Chinese dumping?

Sridharan Rangarajan: So as far as VAW is concerned that the company is doing fine and I think they are having both volume and price growth. See the conversion rate of last year was abnormal conversion rate of this year is not abnormal. This year it is in the range of 0.92 in that range. Normally if you have observed in the last five years we will be in the range of 0.9 to 1. This is a normal trend as far as conversion of Rouble to INR is concerned. Last year you must have noticed that when the oil prices were going up Russian Rouble had benefit and then they had really kind of shot up that is why it went up to as high as about 1.27 or even as high as 1.3. So hence we had the benefit of higher conversion in last year, which is not forthcoming this year.

Bhoomika Nair: Yes Sir, that part of translation bit I understand. I was asking more in terms of Rouble terms that this performance that we are seeing is sustainable or not.

Sridharan Rangarajan: I think Rouble terms the 10% to 12% growth is sustainable what they have grown 23% now there is certain element of these type of benefits getting passed on, but I think a 10 to 12% growth should be expected.

Bhoomika Nair: So on a consolidated basis because of this whole translation impact plus the China dumping that is happening in the other markets one should kind of build in even for FY2025 because the same might continue for some time would it be fair to say that we should look at a single digit kind of a growth and 12% odd and 12% margin profile on consolidated basis?

Sridharan Rangarajan: Are you talking margin profile or growth profile?

Bhoomika Nair: For FY2025 if I were to build in like a single digit growth on consolidated revenues and margin profile of 12% odd would that be fair or you think there is some upside out there?

Sridharan Rangarajan: I think this year my guess is that we could end around 12-12.8% I prefer the growth that we could end and at the same time we also had losses this year from Foskor and we also had some challenges forthcoming because of issues in AWUKO progressing in terms of the recovery, etc., and the losses in AWUKO and RHODIUS to further come down. So if I look at it I feel that these are losses that would go away and probably we will be in a better position. Those are the additional upsides that one is to consider. As far as the growth is concerned I will probably come and share with you more when we meet in April or May.

Bhoomika Nair: Sure. Sir I will come back in the question queue for other queries. I have more questions there. I will come back in the question queue Sir.

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

Bhavin Vithlani: Good morning Sridharan and the team. Good performance especially on the bottomline front. So I have a few questions when we acquired the German companies, at that time we had outlined a path two double digit EBIT margins so the question here is the same I had asked previously is do you believe that those level of margins are achievable, are the timelines that we anticipated are same changing while we are moving in the same direction and qualitatively if you could talk about what makes you believe that from a loss to a break even we could get to a double digit margin level that is the first question. Second is if I look at the standalone abrasives as a segment, then after first quarter of FY2023 prior to that we were clocking high teens growth rate. The underlying growth rate has nosedived to low single digit sub 5% and you alluded to some competitive pressures especially in the thin wheel segment while we have seen the margins going up, so if you could talk qualitatively on the standalone abrasive segment it seems that the margin expansion is driven by the mix change towards a higher share of bonded, which is a better margin segment and how do you see this growth rates coming back, the efforts that the company has been taking underway last time you mentioned that there are a lot of effort being taken to kind of take the growth rate up to double digit or teen, so if you could kind of talk about this, last bit is in the previous participant's question you did kind of alluded but if you could talk about the green energy segment, the hydrogen where in the previous instances we have mentioned that as the customer moves to version one to version two, there could be an intermittent stuff, but there is a significant increase in the content for CUMI consequently there could be a geometric growth from an arithmetic growth, so if you could talk more about it qualitatively and that you said that next year the growth rate for the segment as a whole can jump to 20% how does that lead to profitability and these are my three questions.

Sridharan Rangarajan: Thank you. I think first let me take the RHODIUS question. So we said that we would take five years to get back to the double digit PBIT margin and we feel confident of that trajectory. So what is happening in the current context is that one Europe is going through demand challenges which I think you all know and you are all seeing across many industries plus Germany especially went through a huge cost pressure particularly coming from the energy and similarly on the other raw materials, which are all now slowly get back to normal except energy costs, which is still on the higher side but for these two blips that they have to face I think once these things get addressed we are still confident that we will get back to that trajectory that we were sharing at the time of acquisition. In fact, the integration and the work that we are all doing is really good because there are a lot of projects that we are working closely in terms of electromineral supplies to RHODIUS has significantly increased. Similarly, we are able to work closely on various technology projects that we could work together on the thin wheel area. I think probably we will share more in the next say 18 months, 24 months as we start making use of it. To your second question, which is largely on the abrasives standalone, so we look at the abrasive standalone in three broad segments abrasives that goes to the industrial application and precision abrasives and abrasives that goes through the retail segment, the first two segments are growing well and we think that growth rate should really pick up and we should be able to put our acts together well. As far as retail, the challenge is below last year and that is what is pulling us down and we have putting a set of various actions in terms of retail initiatives and that is why I said that we will take about four to six quarters to put our acts together to get back to the normal growth rate of abrasive that we used to have. So I would not call that just as a demand challenges or competition challenges etc, I think majorly it is majorly an internal challenge that we need to start addressing. Definitely there is a challenge of Chinese dumping and the price pressure that we are facing. So that is definitely there but besides that we clearly face our own internal challenges which I think we will work and put together in the next four to six quarters. Now as far as the ceramics goes you were talking about hydrogen-based ceramics, I think perhaps you are talking about ceramics that goes into hydrogen economy perhaps that is what I am inferring from your comment. We are working with certain customers who are in the field of solid oxide fuel cell manufacturers. They used a similar technology for the hydrogen and they are using our product testing, bringing their own products, etc., so we will get to that. I am not sure about your comment of geometrical progression. If there is some impression like this I would probably ask you to take that away and we will get back to you once we have clarity in terms of how the product gets established but definitely our products are getting used, tested by them. We will share more as we establish our product.

Bhavin Vithlani: Just a followup on the last bit, in our previous discussion we understand our content like in auto we say content for vehicle is the content for SOFC for Carborundum going up for that product and that itself can lead to further significant growth for the segment as a whole as you are guiding 20% growth for the segment is in itself a substantial growth?

Sridharan Rangarajan: We used to be more than 20% growth. It is just one customer correction is where this challenge has happened but I think once that is addressed, but we are also putting together a programme where how do we address such a thing not to affect us in future. There are 10 different initiatives we are working on to counter that, so considering all that I am saying that we will get back to the 20% growth trajectory.

Bhavin Vithlani: Great Sir. Thank you so much for taking my questions.

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

Harshit Patel: Thank you very much for the opportunity Sir. Sir my first question is on our ceramic segment. Sir could you give a flavor on the exports that we do from this particular segment so what would be the share of exports within necessary refractories and similarly what would be the share of exports within the wear ceramics, technical ceramics that we do and over the past few years have you seen any change in this mix between domestic to exports because I reckon seems a lot of newer industries which are growing in India let us say the renewable energy, lot of new wind capacity coming on board where we supply those initial cohorts we do quite a lot of business into metallised cylinders as well which go into the high voltage equipment, so since this kind of industries are growing is there a case for domestic revenues to grow faster than the exports or will it continue to grow faster on exports because we are acquiring new customers over there, so if you can give some idea about the export within this segment that would be very helpful.

Sridharan Rangarajan: Thank you Mr. Harshit. So as far as the mix change that you are asking definitely within the overall ceramics industrial ceramics is highly export oriented. I would say 80 plus percentage is exports and that continues to be in that zone. I do not think any major change is happening. As far as refractory is probably 20 to 25%, but that is where the mix is changing, there is more exports happening and the orders on industries where we have established in India people are looking at using similar applications elsewhere that is how the growth also is happening on the refractory side. So I think your observation of the demand for such products outside this is a correct observation and it is increasing more towards export.

Harshit Patel: Understood. Sir my second question is on VAW since you have mentioned the pricing is under pressure especially in India with respect to the fused alumina business have we seen the similar kind of pressure in the silicon carbide business as well at VAW or because we are the largest producer of SiC over there and one of the lowest cost producers we are still insulated from those kind of pressures and given that you have mentioned that we could grow our revenues 10 to 12% in the Rouble terms over there per annum do we have sufficient capacity to grow or we have already put in motion the expansion plans over there?

Sridharan Rangarajan: I think as far as VAW is concerned it is just not the price alone. I think the ability for them to work with the customer and application basis product allows them to be really competitive both in terms of the lowest cost manufacturer as well as highly technically capable manufacturers. So these two factors allow them to compete in the market so well and that is also the reason where we feel that this trend could continue.

Harshit Patel: Sir in terms of any capex plans over there apart from the usual debottlenecking that we do?

Sridharan Rangarajan: I think we have the normal capex plan plus I think the last couple of years we have added a few capacities more in the silicon carbide fusion capacity, which we shared earlier is good enough to cover and address the growth rate that we are looking at.

Harshit Patel: Understood Sir. Just last one bookkeeping question, could you quantify what was the sales and profits for Foskor Zirconia for the nine months FY2024, that would be my last question?

Sridharan Rangarajan: It is about Rs.115 Crores of sales and Rs.10 Crores of loss.

Harshit Patel: Understood Sir. Thank you very much for answering my questions.

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

Amit Anwani: Hi Sir. Thanks for taking my question. My first question on the German subsidiary I just wanted to understand in previous quarters you did talk about the energy contract getting terminated the higher cost energy contracts and it will be getting into the newer contract so any update on that and second thing despite the volume growth this quarter in the subsidiaries what exactly led to the performance improvement this quarter?

Sridharan Rangarajan: Thanks for your sharp remembering of this earlier comment and yes the contracts as they end, we get to the normal contract and the normal one prices are at lower price which is also is giving us the benefit. Why the better performance is, see we peaked up cost increase and it starts softening and you might have noticed that the prices are coming down in terms of the commodities as well as the energy costs is coming down and these two helped us to bring this benefit in terms of lower losses and they have also improved the mix, particularly in terms of the private label customers that they could get more and that is where it is helping them plus the subsidiaries in Australia and America is doing very well and because of the higher order intake in the in these two geographies. So it is a combination of all these factors helping them doing better.

Amit Anwani: Sir my second question on lot many companies announcing the semiconductor manufacturing LLT also did announce the fabulous semiconductor facility which they will be putting up so any sense on your business outlook or product basket improving when this be incremental growth market which is going to come, any assessment on this front for CUMI?

Sridharan Rangarajan: I think the announcements so far we have seen are all on the silicon based fab. So far we have not seen any silicon carbide based fabs so we will wait if there are better opportunities for us.

Amit Anwani: Sir my last question on the Red Sea crisis, since you explained that the ceramics business is more than 80% exports and overall we have subsidiaries and we are supplying raw materials to the German subsidiary as well so any impact of Red Sea crisis which you can say in medium to long term?

Sridharan Rangarajan: In the last quarter there are some delays in shipment we are looking at largely because of the container availability those type of challenges, the other challenge is the freight cost going up, shipping time going up, so it is customers who are trying to get adjusted to this, how they would like to look at it. Lot of them are looking at how can they ship using Asia to get into US and avoiding this route at all, but all these takes customer-by-customer as well as their own challenges in terms of urgency versus cost, how do they balance, etc., but it is, it is a concern and we are working customer-by-customer.

Amit Anwani: Sure Sir. Last question if I can squeeze in about the 20% growth which you mentioned in ceramics for the nontechnical ceramics, wanted to understand the technical ceramics contribution this quarter if you can highlight?

Sridharan Rangarajan: We do not share individually these details.

Amit Anwani: Sure Sir. Thank you and all the best.

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

Ravi Swaminathan: Sir thanks for taking my question. Most of my questions have been answered. Once more on the Chinese dumping that we are seeing so if we recall some 6-7 years ago China had shut down many of the facilities which were there in the northern Mongolia belt and that had led to better realization across the world for electrominerals, now this dumping is because are they opening up those facilities or what is happening over there, what is resulting in this dumping over the past few quarters?

Sridharan Rangarajan: I think those days the Mongolia is largely a silicon carbide shutting down there is a story on that. Right now we face this primarily in the aluminas and yes there is a pressure on the silicon carbide as well, but not to the extent of what we are facing it in the aluminas. So I am not an expert on Chinese economy and difficult for me to comment, but I think what I see is there is definitely a pressure what we see from the Chinese economy. They want to sustain at whatever the cost and hence they want to prize it, which I do not know how they are getting compensated, etc., which is a very difficult thing for us to understand but this is a reality.

Ravi Swaminathan: Alumina would be what percentage of electromineral business overall?

Sridharan Rangarajan: It is a significant percentage Ravi.

Ravi Swaminathan: The second question is with respect to you commenting that we can grow the second segment that is the refractories and ceramics business by 20% is it going to come from overall market growth and we have products over there and that driving or is it like new product introduction our efforts into getting into newer markets can you explain some more on how that 20% would be achieved, is it just pure category growth that is going to help us or is it a bit of market share gains, new products and all these things?

Sridharan Rangarajan: The market itself is growing and look at the history of us for the last four, five years we have been doing this, so it is a market and the combination of products what we have done and the third factor is the higher export as one of the participant was also asking refractories, we are able to get into newer geographies which we were never there. So these factors are giving us this feeling that we could do 20%.

Ravi Swaminathan: 20% growth is more of volume growth that we are talking?

Sridharan Rangarajan: It is a combination of volume and price.

Ravi Swaminathan: Got it Sir. Thanks a lot.

Moderator: Thank you. That was the last question for today. I would now like to hand over to the management for closing comments. Over to you Sir!

Sridharan Rangarajan: So thank you for all of your time. I hope we could answer all your questions. We tried our best in terms of putting up a decent opening remark with all your concerns that you may have, but I think I just like to summarize is that I feel that major parts of the business, volume and price growth is there, margins are improving, good cash flows and the return on capital employed is improving. Recovery in Foskor is in place and RHODIUS and AWUKO are on track. We need to put our acts together on domestic abrasives. These are some broad sense of summary that I could share. Thank you.

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