



“IFGL Refractories Limited Q3 FY15 Results Conference Call”

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**MANAGEMENT: MR. KAMAL SARDA—CHIEF EXECUTIVE OFFICER - IFGL
REFRATORIES LTD
MR. RAJESH AGARWAL – COMPANY SECRETARY - IFGL
REFRATORIES LTD
STRATEGIC GROWTH ADVISORS - INVESTOR RELATIONS
ADVISORS**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the IFGL Refractories Limited Q3 FY15 Earnings Conference Call. 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. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of the future performance and involve risk and uncertainties that are difficult to predict. With this I would now like to hand the conference over to the management of IFGL Refractories Limited. Thank you and over to you sir.

Kamal Sarda: Gentlemen and Ladies, on behalf of IFGL Refractoris Limited I warmly welcome you all on the earnings call for quarter three FY15 based on the unaudited results of our company. I have with me today Rajesh Agarwal, our Company Secretary and SGA, our Investor Relations Advisors.

I shall start with discussing our financial performance for Q3. In the quarter ended 31st December 2014 the total income stood at 193.1 crores, the EBITDA stood at 23.8 crores registering a margin of 12.3%. PAT for the quarter was 12.4% which is 6.4%. For the nine months ended 31st December 2014 the consolidated income stood at 598.1 crores, EBITDA was 79.9 crores registering a margin of 13.4%. PAT was at 44.7 with a margin of 7.5%. Our debt levels remain at very comfortable levels; we have not added any significant debts and have seen a gradual reduction for the next year or so. Our leverage levels have ensured that even in the volatile currency scenario as of today we have healthy shareholders earnings. Subsidiary performance have been mixed, Europe continues to be stable while some parts are not performing as well as expected due to the slowdown and geopolitical tensions in the European region. However, the recent easing of ECB we believe it will improve business sentiment in the medium term. We continue to remain focused on increasing our competitive edge by improving our cost efficiency and service levels. Customer acquisition and geographical diversification will help us outperform in these challenging times.

On our standalone performance, our standalone performance was satisfactory in terms of sales mix 48% was domestic sales and 52% was export sales for the quarter. We reported an EBITDA margin of 14.6% and PAT margin of 8.2% on our income of 82.9 crores. For the nine months ended our turnover was 250.1 crores with EBITDA of 14.9% and PAT margin of 8.4%.

Coming to our subsidiary performance, Monocon Group has recorded business turnover of £7.1 million with a PAT margin of 6.9%. We continue to expand our product offerings and improve our competitive edge. The US business, EIC recorded a turnover of £2.6 million with a PAT of 10.4%. We have almost finished our expansion in the US and FY16 will see the full benefit of this CAPEX. Share, we expanded our capacities in the Isostatic Refractories from the present 80,000 pieces to 160,000 pieces. German business recorded a turnover of £1.6 million, this was a quarter loss because last quarter is a slow-down quarter for Europe which has impacted both volumes and hence there was a small loss reported. Gujarat subsidiary IFGL Export recorded a turnover of 11 crores, we had a PAT of 24 lakhs, we are continuing with our expansion program and hope to complete between Q2 and Q3 FY16. We are seeing volume growths across geographies; we are focused on deepening our relationship with the existing steel manufacturers and forge relations with the new manufacturers as well. We continue to add products to our portfolio and improve our service levels across subsidiaries and this coupled with IFGL brand acceptance in market it will help us to outperform our peers.

I now leave it open for any questions to be asked. Thank you.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have first question from the line of Abhisar Jain from Centrum Broking. Please go ahead.

Abhisar Jain: Sir, this is on EI Ceramics, sir as we are on schedule with our capacity expansion there I want to just sir get a little bit color on FY16 have we started getting some quantity of the expansion already contracted which we will supply starting FY16? And on that incremental 80,000 capacity I understand there will be stabilization in the first year but what could be the fair guidance there?

Kamal Sarda: See, the expansion as I mentioned will get completely completed within this quarter. We have almost commissioned plants that, see we hope...

Kamal Sarda: After this expansion gets completed by this quarter it is not like that you take the orders in advance, so we will have then we finish, we stabilize is that then we go to the market for expansion for additional order. So it may take some bit of stabilization time but we are hopeful, we do not see any problems in getting additional quantities in the US market.

Abhisar Jain: Okay sir, understood. But sir any guidance you would like to give on the incremental volume which we can do in FY16?

- Kamal Sarda:** I would refrain from giving any guidance but I think we are more than sure that this incremental capacity will give a good result for us.
- Abhisar Jain:** Okay. And sir just on more on EI ceramics itself, see sir in our overseas subsidiaries pack this is one of the best subsidiaries with obviously the highest margin, so now whatever pressure sir we are seeing on the steel pricing and side, though US is overall doing well but are we seeing any gross margin compression in EI ceramic or is it going to be a little bit more stable? Also from the new capacity will it be lower margin or almost similar?
- Kamal Sarda:** I don't think we will be intimidated by what is happening in the global market whether it be EI Ceramics or IFGL ... We continue to have those kind of issues there. The EI Ceramics as you mentioned EI Ceramics is one of our best performing companies in the group and it will continue to do so, pressure margins would be there but let's see how it happens in the near future.
- Abhisar Jain:** Yes. Sir I was asking because the margin pressure is not being visible in EI in the last couple of quarters.
- Kamal Sarda:** So I don't see that we will get or we will not get, let's see how does the market respond, we will see how does it happen. In any case the incremental business we had incremental margin only, all your fixed costs are already covered there so if there is anything it will get compensated.
- Abhisar Jain:** Yes. And sir just one last question if I may, sir if you can just specify the FOREX loss in Q3 because of again further appreciation in Euro and Pound?
- Kamal Sarda:** It is already there in the consol published result.
- Abhisar Jain:** Right, you have specifically given the number for Q2 which was a loss of 1 odd crores and in this quarter I didn't see that number separately so was just trying to figure out.
- Kamal Sarda:** I thought it is there in the published result, let me give you the published result figure. In the public result you have in fact a gain of 138 lakhs in the quarter of December and nine months ended is 136.
- Moderator:** Thank you. We have next question from the line of Umesh Raut from Equirus Securities. Please go ahead.

- Umesh Raut:** Sir I have couple of queries. First of all regarding the capacity utilization at our various operations, so how does it stand right now?
- Kamal Sarda:** It is very similar to what we had in the past, there are no major changes, in fact the volumes are growing a bit so capacity utilization is almost similar.
- Umesh Raut:** Okay. So from European operations particularly our capacity utilization is around 50% to 60%?
- Kamal Sarda:** Yes. On the Hoffman the capacity utilization would be more than 80%.
- Umesh Raut:** Okay. Sir and just wanted to know our Europe revenues in terms of euro and pound terms.
- Kamal Sarda:** I don't have the ready figures, with Euro you can pass to Shogun of SGA, he can share it with you. But in pound terms for the nine months ended we had done about £35 million in the overseas business.
- Umesh Raut:** £35 million?
- Kamal Sarda:** Very similar to the previous nine months.
- Umesh Raut:** Okay sir. And sir as we export from Indian operations to overseas, so cost of manufacturing for us would be similar to what it was over the last one year but with this depreciation of Euro and Pound against rupee how do we see EBITDA margins going ahead?
- Kamal Sarda:** In any kind of appreciation of Indian rupee vis-à-vis other currencies we would be that much impacted. So I think the average realization would go down if the euro depreciates or rather euro depreciates against rupee, we will be impacted to that extent.
- Umesh Raut:** Okay. Sir could you please provide constant currency growth from Europe and US operations?
- Kamal Sarda:** I don't have the figures readily with me honestly. Constant currency is a very vague thing, we deal in so many currencies, I don't think we do internally any kind of such exercise, it is difficult.

- Umesh Raut:** Okay. And sir about this employee cost, we had some rise in employee cost during third quarter, employee cost as a percentage of sale stood at 15.4% which is slightly on a higher side. So what are the reasons behind it?
- Kamal Sarda:** I don't think there is any other reason other than the top line having a slight bit of down, otherwise in the constant terms the employee cost is Rs. 2939lacs and Rs. 2954 lacs
- Kamal Sarda:** And mind it the last quarter has its own increment, we give increments in August, it will slightly increase but not very substantially.
- Umesh Raut:** Okay. And sir tax rate going ahead on a consolidated level for FY16 and 17?
- Kamal Sarda:** It is very similar, it all depends which country, which operation does what. The tax rate, there are no changes, let's see what the budget has in store.
- Umesh Raut:** Okay. But sir over the last three quarters during first quarter we had 26%, then 31% and now 32%. So tax rate is increasing...
- Kamal Sarda:** These combinations would vary by 1% or 2% plus or minus, it will not significantly vary that today it is 34 and tomorrow it is 28, it should remain in a range bound manner.
- Umesh Raut:** Okay. And sir about this segmental PBIT breakup, I see one adjustment related to inter segment and it is around 2.6 crores so what are the reasons behind this, this is very much on higher side if I compare or if I look over last two three quarter.
- Kamal Sarda:** It was very similar, there is no major significant change in that. I think these are all the inter group sales which we do from one place to another place. Also the translation reserve which takes place because of the exchange rate. So this comes into the intersegment adjustment in the profit and loss and as far as sales is concerned it will be group sale.
- Umesh Raut:** Okay. And sir update on Kandla facility, when do we see capacity expansion would get complete?
- Kamal Sarda:** It will happen next financial year, as I mentioned in my speech really we are looking at the quarter three of FY16. So we are hopeful that we will finish that expansion by that time.

Moderator: Thank you. Our next question is from the line of Pritesh Chedda from Emkay Global Financial Services. Please go ahead.

Pritesh Chedda: Just wanted to understand in the opening remarks on growth drivers you mentioned is geographical diversification and customer acquisition which means it's also to do with some market share gains and hence the growth let's say in the current scenario. Since last two quarters we are seeing growth being little bit on a softer side. Just wanted to take your understanding on these two drivers why has it not panned out since the last few quarters' numbers that we are seeing?

Kamal Sarda: See, we never tell that it will be a substantial in the turnover vis-à-vis one quarter and the other quarter. We are a small company and there will be relatively stable growth we have. So if somebody is looking at 20%, 30% jump within one quarter it would be very difficult for us. So it is a gradual process where we introduce new products, we get into new customers and as we have said if the market changes yes ours will be a market share growth because there are no new capacities coming up in the overseas markets. We continue to have those existing customers market which is being served by the other refractory player and that share will increase our business. It will be a slower steady growth which you must have seen in the last few quarters of the profit that is how we have done in the past also.

Pritesh Chedda: Which means that when your customers start growing and by the virtue of the fact that other refractory manufacturers are not putting in capacity you would gain market share, is that the assumption correct?

Kamal Sarda: See, the customer growth is definitely a big portion of the growth segment but the acquisition of the customer for us would be a bigger growth segment.

Pritesh Chedda: Okay. And what are the developments on that side on customer acquisition or geographical diversification or a product diversification, any updates that you want to share?

Kamal Sarda: Within our products range we keep on adding new products, adding new dimensions of the existing product so that the customer gets a benefit of the new design, new quality. This is a continuous exercise if we keep on doing. As far as acquisitions are concerned there are no new acquisitions which we can speak of as of now.

Pritesh Chedda: Okay. And sir initially someone asked question on capacity utilization, you just gave out that Hoffman is about 80%, Europe is about 50%, what will be the utilization in India, what will be the utilization in the US?

- Kamal Sarda:** As I mentioned US one of the plants EI Ceramics is running almost 80%-90% so that is where we are expanding. In India, in one of the product segment we are running virtually at full capacity that's where we are expanding in India as well. For the other product segment it would be anywhere between 50% to 60%.
- Pritesh Chedda:** Okay. And lastly what explains generally the differential between the standalone operations and the international operations on the margin side so there was a couple of percent differential type number, what explains that 2% - 3% differential in the two businesses?
- Kamal Sarda:** See, it is basically the product which is much more I would say there are very few manufacturers because of the technology involved and there are products which are mature products like Monocon manufacturers more or less a mature product, so Monocon margins would be slightly lower couple of percentage lower than Hoffman products are also in geography where the market is shrinking. So there the margins also gets affected, so that is one of the reason why you will see the margin differences between the Indian operation and the net overseas operation. Plus, you will find some bit of foreign exchange also play a role because you have this foreign exchange translation reserve last year this was a profit, this year there is a very small negative into it. So there are varying factors into it if you look at the net overseas results.
- Pritesh Chedda:** And in the India operations largely should have slide gate refractories as a product line?
- Kamal Sarda:** No, isostatic product is the major product, slide gate is also one of the big products.
- Moderator:** Thank you. We have the next question from the line of Mohan Krishnaswamy from Brahma Capital. Please go ahead.
- Mohan Krishnaswamy:** I just want to know about the domestic market, how is the pricing environment currently? I believe there was some price cut which some of the players initiated so have those things stabilized?
- Kamal Sarda:** There is nothing called stability in the price, it will continue to pull and push from both side. So there is no major impact which is going to happen in the India refractory industry because of all these price pressures. Yes, it is there because Indian steel industry is also not under good liquidity condition. So there is pull and push price rise would be there and we have to stand by it, we cannot say that it is completed, it is never that it's beyond that, beyond today, there will no price

pressures from the customer, it is a continuous process, it is not going to cost, it will work on margins, we know we have to keep our margins intact.

Mohan Krishnaswamy: But incrementally it is not getting worse than what it was in the last say 6-8 months?

Kamal Sarda: No, no there is nothing called worse otherwise refractory industry will not survive, it is not a sunshine industry as such that will keep on growing and growing and growing.

Moderator: Thank you. We have the next question from the line of Abhisar Jain from Centrum Broking. Please go ahead.

Abhisar Jain: Sir, just a follow-up on the standalone operations, sir what we have seen in FY15 is that though we have had a pressure on the gross margins by a couple of percentage points we have been able to make it up through a reduced other expenses so maybe some operational efficiency kicking in there? I would just want to understand that is this will be sustainable nature, so if we get an improvement in gross margin through way of better pricing next year we can see some improvement in the overall standalone margins.

Kamal Sarda: Abhisar it is a continuous process, we cannot say that this will be end of it. You will have pricing pressures, you will have exchange rate in part so you will have to work on the cost part. I do not say this is very standard answer there, it is continuous development process which has to go on.

Abhisar Jain: Okay. Sir because see where I am coming from is that other expense consist the freight cost and we have had earlier slightly higher share of exports from the standalone operations which is going to get replaced with the export from IFGL which is a port based location now. So as such the other expense portion from standalone can remain lower if we sell more in domestic market, so...

Kamal Sarda: Yes, other expenses there are two three major points where you must have seen reduction in the last few months, so one of them would be fuel. We use a lot of gas, a lot of LPG and lot of diesel in our fuel portions, so that's one. secondly, the ocean freight portion which has also seen a bit of subdued nature in the last few months those are the two-three factors which have contributed as such a reduction in the other expenses. We hope it should be stable and we will continue to have these kind of things, unless fuel goes back increase is substantially we should be there.

- Abhisar Jain:** Sir understood. Sir just last one on Hoffman sir we were planning for some expansion there, so what is the guidance on that sir and on that operation also this quarter's performance as you said was a little bit seasonal so we expect better numbers ahead?
- Kamal Sarda:** See, Hoffman basically the last quarter of the calendar year is a subdued nature for them because people don't give orders or deliveries in towards end November and December. From January it will start picking up, Hoffman the best period is January to say July or August, September like that, that is the peak period so that we have seen in the last two three years and that's the scenario that last quarter is always a subdued one. But I have seen the January results they have picked up.
- Abhisar Jain:** Okay. And expansion any is there?
- Kamal Sarda:** Yes, there is an expansion going on there which should get completed within this quarter. I will not be able to give you full details of the kind of revenues it will generate.
- Abhisar Jain:** But sir what CAPEX we are putting there?
- Kamal Sarda:** It is a lateral expansion there which is happening so maybe in the next call I will be able to share you more data.
- Moderator:** Sir we have next question that's from the line of Umesh Raut from Equirus Securities. Please go ahead.
- Umesh Raut:** Just following up on domestic market, so sir how do you see demand panning up for the refractory market in India?
- Kamal Sarda:** The Indian steel industry growth is very good in the next coming three, four, five years. Even I think we should 10 years ahead, we should be looking at 10% plus CAGR. So I think this is good for the Indian refractory industry but on the ground, yes the expansions have been made somewhere, they are in pipeline but the real reflection of the consumption going up has to be seen.
- Umesh Raut:** Okay. So any particular new client addition from domestic market or incremental orders from any existing client?
- Kamal Sarda:** Yes, as I mentioned it is a continuous process, we will keep on adding obviously the steel industry growth we'll keep on adding businesses. So I don't think we will go

into very specific with new clients have got added but then the business grows I can tell you that.

Umesh Raut: Okay sir. And sir just wanted to consolidated debt position as of third quarter.

Kamal Sarda: I think it is not more than 0.24 debt-equity on a net debt basis, I think it should be less than that.

Umesh Raut: Okay. And sir CAPEX for FY16 and '17?

Kamal Sarda: FY16 we will have this Kandla expansion being completed which is as I mentioned \$1 million to \$1.5 million, that's the only major thing which is going to happen and the Hoffman expansion whether this will get fully spend in this quarter or it will spill over to the next quarter I will be able to share with the data in the next call when we have for the March results.

Umesh Raut: Okay sir. Sir during nine months of period how much of CAPEX we incurred?

Kamal Sarda: I think is should be about \$2.5 million.

Moderator: Thank you. We have the next question from the line of Nisha Shah who is an individual investor. Please go ahead.

Nisha Shah: Sir just one question, I just want to ask that as it is indicating that your debt is coming down and your cash level is increasing, so can you just throw some light that how you will be utilizing this cash flow, like any plans for JV or higher payouts or any more CAPEX plans, anything?

Kamal Sarda: There are no fixed plans let me tell you honestly, we are retaining this cash where we have kept this cash to just to explore any opportunity that we get either for an acquisition or any kind of a Greenfield product at a later stage. But nothing worth making it public as of now.

Nisha Shah: Okay. And sir just, even I just wanted to have an update on your Gujarat subsidiary performance, can you just, I joined a little late so might be I missed that part.

Kamal Sarda: Gujarat subsidiary is doing well as far as capacity utilization is concerned. We are virtually running full capacity, almost 80%-90% capacity. And the plant has stabilized, that's one good thing, it is in a special economic zone so you have all the kind of tax advantages which is there. And yes, if luck in our side we will have the

MAT removed in SEZ and this will be another boon to this unit for us. So Gujarat operation has got stabilized and we will continue to expand here.

Moderator: Thank you. As there are no further questions from the participants I would now like to hand over the conference call back to Mr. Kamal Sarda for his closing comments. Over to you sir.

Kamal Sarda: Thank you Ladies and Gentlemen. I hope I have been able to answer most of your queries to your satisfaction and we look forward to your participation in the next quarter. For any queries you may contact our investor relations advisor that's Strategic Growth Advisors. Thank you very much.

Moderator: Thank you very much sir. Ladies and Gentlemen, on behalf of IFGL Refractories Limited that concludes this conference. Thank you for joining us. You may now disconnect you lines.