



“IFGL Refractories Limited Q3 FY16 Earnings Conference Call”

February 09, 2016



**MANAGEMENT: Mr. Kamal Sarda –CEO, IFGL
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Head International Business
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Refractories**



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Moderator: Ladies and gentlemen, good day and welcome to the IFGL Refractories Limited Q3 FY16 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. The statements are not guaranteed of the future performance and involve risks and uncertainties that are difficult to predict. I now hand the conference over to Mr. Kamal Sarda – CEO, IFGL Refractories Limited. Thank you and over to you sir.

Kamal Sarda Hello everyone, good afternoon. On behalf of IFGL Refractories I warmly welcome you all to the earnings call for nine months FY16 financial results of our company. I have with me today Mr. Giorgio Cappelli – Director of our overseas companies, Mr. Rajesh Agarwal – Company Secretary and SGA our Investor Relations Advisor.

I hope all of you have received the investor presentation and had a chance to go through it. Let me start with giving an update on the industry. World steel production has been continuously declining. From a utilization level of 71.6% in July 2014 industry ended at 64.6% utilization for December 2015 and the world steel production has declined by 2.8% in 2015 however the silver lining remains in 2016 where the production is expected to increase around 2%. The recent move by Government of India to impose minimum import price on some steel items to protect local market is strongest possible measure to shield steel makers from the onslaught of cheap imports that has severely affected the industry. We believe this will improve the domestic production in India and thus augers well for the refractory industry. Despite the declining strength, global steel industry is expected to claw back into the growth in this year in spite of the Chinese imports at a time when low price of the metal are casting a shadow over producers. World production of crude steel is expected to rise around 2% in 2016 with renewed expansion in US and Europe offsetting a second consecutive year of contraction in China which makes nearly half of all steel. This will percolate down to our businesses and we expect better performances going forward. At IFGL we have been able to successfully add clients resulting in moderate growth at a time when steel industry is facing multiple challenges. We are positive on steel consumption in India on back of the infra focus of Government of India.

Now I move onto the financials. For the nine months ended 31st December, 2015 IFGL reported a consolidated total income of Rs. 544 crores, normalized EBITDA i.e. EBITDA before provisions at Rs. 68 crores for 9 months FY16, while PAT at Rs. 31.3 crores. Consolidated earnings per share was recorded at Rs. 9.05 per share. In the backdrop of difficult and volatile operating environments our performance has been satisfactory. On a standalone performance, standalone income stood at Rs. 238.2 crores during the 9-month with an EBITDA of Rs. 31.3 crores, EBITDA margin was at 13%. PAT of Rs. 16.3 crores for these 9 months. Our focus on sale of high value added products in association with relatively strong integrated mills has led to stable performance. The recent business of Government of India will improve

the situation of domestic steel producers. Thereby benefiting our performance as well. On the subsidiary performance Monocon Group, our UK subsidiary recorded a total income of GBP 20.9 million for the nine months FY16. Profitability was impacted owing to a one-time provision in Q2 of GBP 0.6 million. We reported a profit of GBP 0.4mn during 9 months. Tight cost control and improving product mix with focused sales to creditworthy clients have led to company reporting highest PAT in the last four quarters. Hofmann Ceramics our German business reported an income of 7.7 million Euro, EBITDA of 0.5mn with a margin of 6.9%. Comparatively better economic health of Germany coupled with improved product mix by Hofmann led to better performance. PAT was recorded at Euro 0.4mn with a margin of 5.5%. EI Ceramics, our US business, reported a total income of 11 million US\$ for the nine months, EBITDA was about 1 million US\$ with a margin of 9%. PAT was recorded at 0.4%. Substantial improvement was seen in the profitability compared to the preceding three quarters. Lower domestic production, nearly 10% fall in local steel production in US owing to increased import from China continues to hamper refractory manufacturers, however sales of value added products is helping us fare better. IFGL Exports our company focusing on export market and operating from Kandla SEZ reported a total income of Rs 34.1 crores, EBITDA of Rs 8.2 crores with a margin of 24.1%, while PAT was recorded at Rs. 4.5 crores with a margin of 13%. Operational efficiency has improved profitability during nine months FY16. I now leave the floor for any questions from the people.

- Moderator** Thank you very much. We will take our first question. It is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.
- Dixit Doshi** In IFGL exports if we see in nine months, the sales is almost flat at Rs. 34 crores whereas our PAT has improved from Rs. 1.5 crores to Rs. 4.5 crores. If you can just give some reasons why such a great improvement over there?
- Kamal Sarda** Yes, there are a couple of reasons. One, the production has stabilized there. Last year we had some issues with the overall efficiency of that plant. We have now improved that. And second of course, in the last two quarters the foreign exchange has also helped. But it is overall the product mix which has been the main reason for this profitability in challenging times
- Dixit Doshi** And what is the current capacity utilization at IFGL Export? At full capacity how much we can do?
- Kamal Sarda** We can do about 7000 pieces per month, approximately at 80-85% and we are operating around that only, For few months we have done more than 7000 pieces also.
- Dixit Doshi** How did currency fluctuations benefit your company ?
- Kamal Sarda** I need to calculate that separately but as I said it is also part because towards the end the Euro has favored us also. So more of a stable productivity with a better product mix, customer mix this has improved.



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Moderator The next question is from the line of Nirav Shah from Geecee Investments. Please go ahead.

Nirav Shah First thing is, have we seen any capacity closures globally in the refractory site?

Kamal Sarda We have not seen any global closure in refractories as per my knowledge.

Nirav Shah But what would be broadly the global utilization and any weaker hand of companies which you see not able to sustain itself in the current challenging environment?

Kamal Sarda See the capacity utilization could be different in different product lines but I do not think the Global Refractory is operating more than 60-65% levels.

Nirav Shah And what is the net debt as of December?

Kamal Sarda .0.2x is ratio of debt to equity. And the debt would be about less than Rs. 40 crores.

Nirav Shah On a consolidated basis?

Kamal Sarda Yes.

Nirav Shah And sir again, third question, , if many countries start initiating measures to curb Chinese imports then definitely it opens up an opportunity for players like us because if Chinese refractory companies are not able to export directly to other countries like say in the US or the Europe, so from that point of view what competitive advantage steel companies procuring refractory companies in China?

Kamal Sarda Situation has not changed in the last quarter.

Nirav Shah how competitive Chinese refractory producing companies are outside of China? I mean do they export bulk of it or it is mostly consumed in-house in China only?

Kamal Sarda See refractory if you look at, there are certain refractories which come from China like magnesia-carbon bricks and all because you get cheap magnesia and a better quality magnesia in China but as far as the specialized refractory is concerned China is not exporting too much. And we do not see a major challenge there.

Moderator Next question is from the line of Nitin Gandhi from KIFS Securities. Please go ahead.

Nitin Gandhi I wish to know regarding this M2M contract which is outstanding and the way it is shaping up, what are your plans to mitigate this loss? M2M which is being accounted on outstanding derivative contract, can you share some light on it and how do you propose to do there and what is the maturity profile of those?



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- Kamal Sarda** M2M contractis presently outstanding only for three months till March and that is not a very big quantity as of today.
- Nitin Gandhi** No but your losses continue to pile up right now.Rs 9crores for the 9 months and the last quarter also it was Rs1.85crores
- Kamal Sarda** It is a gain, not loss
- Nitin Gandhi** And this Q4, is it likely to be in line with Q3 or is it like it was not further from here?
- Kamal Sarda** Q4 would be in similar lines of Q3. We are trying to improve on it
- Moderator** Next question is from the line of RukunTarachandani from Kotak AMC. Please go ahead.
- RukunTarachandani** Hi, just on IFGL exports, the profitability there has been much better than all the other subsidiaries especially our standalone business. So once the capacity expansion happens there, is it possible for you to shift part of the production from the standalone business to IFGL exports for better efficiency or that would not happen?
- Kamal Sarda** See, the plant is up for expansion. So I think by July-August we should be completing the expansion. So once that is there, we will possibly shift part of the production there and that will give us better margins.
- RukunTarachandani** Right, so that can happen. The shift can happen from the standalone.
- Kamal Sarda** IFGL export is in special economic zone so it has its own cost advantages like duty free imports and they are near the ports of those advantages which will further improve its profitability there.
- RukunTarachandani** And on the European subsidiaries they have done well this quarter comparatively, which was mentioned that it is part of it because of the cost controls. So how is the scenario currently, I mean do you think that current level of profitability is sustainable there?
- Giorgio Cappelli** Third quarter scenario was really quite good for Monocon and Hoffman is doing well because it is producing a lot of product for the conductor. For the foundries we are producing product for the conductors and are doing quite well Also for ordering planning in Hoffman is really good now and in Monocon we will do the cost control and reducing the cost and increase efficiency. We are doing a lot of work for January and we expect to have a positive last quarter.
- Moderator** Our next question is from the line of Abhisar Jain from Centrum Broking. Please go ahead.
- Abhisar Jain** My question is related to the overall business that we do in Europe, both from India as well as from Monocon, so if we see in this quarter we have done better in Monocon, in terms of sales also that has gone up sequentially but the sales from the domestic operations which goes into

exports mainly in Europe is down significantly and you mentioned in the Kandla think also that EU sales has been impacted. So there seems to be some disconnect in terms of Monocon doing better and the sales from India doing worst. Can you just throw some light and also share the outlook of how it is now shaping up in Q4?

Giorgio Cappelli

I can speak about Monocon. Monocon is big department. One is refractory, one is engineering. We are producing good machine for the steel industry and engineering is doing quite well. We have got some orders and that's the reason the engineering part is doing well. Regarding the refractory department, we don't see any big problem in the last quarter. We have a problem in UK shutting down of steel mills but we don't see a major problem for the quarter

Abhisar Jain

And if you can just throw some light on the India related business which goes into Europe which has seen some slowdown in this quarter?

Kamal Sarda

I think there is no major slowdown there, so I think it has been quite stable but other than Europe there has been some impact like South Africa, Italy and Malaysia and other countries but Europe has been quite stable..

Abhisar Jain

the export number that we tend to get on a quarterly basis from standalone that is down by some Rs. 9 crores to Rs. 10 crores on a sequential basis, so you are saying that not much of it may be from Europe but from other geographies?

Kamal Sarda

It has mainly impacted by other geographies other than Europe.

Abhisar Jain

And sir what is the outlook there now? Does it continue to remain impacted or you are seeing some pickup because generally we were having one very steady run-rate of Rs. 40-crores odd and plus minus here and there on a quarterly basis. But this quarter is quite significantly lower.

Kamal Sarda

Europe is doing good, so outlook for Europe will remain steady one but other than Europe there are big challenges. As I mentioned South Africa, Italy and a bit of UK and in Africa, Annaba was one of bigger customers in Algeria that has shut down. So some of those would get impacted but as far as the profitability is concerned, as we mentioned that there are several cost reductions measures we have taken. So we are trying to get back to those countries if there are any kind of price pressures also.

Abhisar Jain

And sir Hoffman performance is, you mentioned that it is seasonal but other than that we continue to have stable operations and I believe some small expansion and all was also happening. So can you share some outlook on that subsidiary also for FY17?

Giorgio Chappelli

Hoffman is improving a lot. Our production cost we are taking some investments to reduce our production cost and we are also operating a new equipment for some new product. We can see at the moment what I say is is really doing well in Germany and the other part of the country. There is lack of orders by the oil industry. It is clear oil at a price of barrel \$29 will make investment slower in this sector. This is a major problem in USA but in Europe the



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conductoris really doing well and as I said before we sell new product in the replacement market and we are quite optimistic for the future and also we are making cost cutting and some reduction and improvement in our production.

- Abhisar Jain** And sir just lastly wanted to understand on the CAPEX side that now since most part of our CAPEX is complete both in US already commissioned, Kandla will commission. So can you just share the CAPEX number for FY16 and then on FY17 we should largely require only maintenance CAPEX and how much that will be?
- Kamal Sarda** Maintenance CAPEX through the group would not be more than Rs8 to 10 crores, but the CAPEX for Kandla is about Rs5 crores as I mentioned earlier.
- Abhisar Jain** Yes, but that will be done in FY16 largely, right?
- Kamal Sarda** Yes, largely FY16 but partially it may spillover because the machine is going to come sometimes in April, the capitalization will happen next year only.
- Abhisar Jain** But other than this there is only Rs8 to 10 crores maintenance and sir any other plans of any CAPEX in any of the subsidiaries?
- Giorgio Chappelli** We have some CAPEX in Hoffman Ceramics to be completed. In USA we have already completed last year our CAPEX was increased. At the moment we do not have any major CAPEX.
- Abhisar Jain** For Hoffman Ceramics how much is the number?
- Giorgio Chappelli** For 2016-17 we are really at the moment collating all the offers so it may be tough to say but it will be around €1.5 million. We are collating the offers so it will be tough to say.
- Moderator** Next question is from the line of Vinit Maloo from Birla Sunlife. Please go ahead.
- Vinit Maloo** Sir I have a question, when I look at your consolidated results and the segment I mean Europe seems to be doing well. However, when I look at this subsidiary performance which you have given for 9 months and if I compare it with the H1 numbers that you have given it looks like both Monocon and Hoffman have reported losses in this quarter at EBITDA level. Because I am looking at GBP 0.5 million of EBITDA in nine months in Monocon and in H1 I am looking at 0.7 million EBITDA.
- Giorgio Chappelli** Yes but in Monocon we will get Monocon UK and what is also written in our presentation as there is shutdown of one client. So we have to write off all the credits to this client but we never made a loss.
- Vinit Maloo** These numbers are just for that provision that we had taken.



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- Giorgio Chappelli** Yes but we did not make any loss. We are already positive and also in Monocon was positive. I don't know where you get it that we have made the losses in the last quarter.
- Moderator** Our next question is from the line of Abhishek Agarwal from Moneyore. Please go ahead.
- Abhishek Agarwal** Sir my first question is looking at current challenging condition in steel industry do you believe there will be any major CAPEX in steel industry and in line with that how will we drive revenue growth in our business?
- Kamal Sarda** See if you look at the past few months where the industry has not been doing good for the last one year or so. There have been several measures taken by the Indian Government in the past 4-5 months wherein they had put in some safeguard duties on several items in 2-3 tranches and also the recent minimum import price which has been imposed, so that is a good step taken by the Government of India to protect the industry and that should improve the domestic steel prices and thereby the profitability of the steel tranche should increase. And also at the same time. US has taken some steps to impose the anti-dumping duties. There are talks going on in the European markets also to put in anti-dumping duty. In the UK market there are some talks going on. I think it is slow but I think there are some steps taken by various countries to protect the local industry and protect from the cheap imports from China. That is a step which will help the steel industry and I think that once this local steel industry grows the refractory industry locally will improve like India also will have a better market in the next future.
- Abhishek Agarwal** Sir but looking at the US has taken this step 3 to 4 months back but in this quarter performance of EI Ceramics we are not seeing any improvement in performance.
- Kamal Sarda** No, EI Ceramics has done better.
- Abhishek Agarwal** And my last question, do you see any stress in working capital because of delay in receivables?
- Kamal Sarda** There is some stress but we manage our customers, we do not go to customers who have a bad payment record and we monitor the cashflow of each customer very carefully.
- Abhishek Agarwal** Sir but looking at liquidity which is there in steel industry player, so do we think there will be any stress?
- Kamal Sarda** There is stress but we will have to manage within that stress. We cannot stop doing business also completely but we will have to somehow manage that, negotiate and engage with the customer to see that he pays us on time or may be at least the continuity of business is there, payment cycle is maintained. But there are some things there are no standard answers to it. So we have to manage with that.
- Moderator** Next question is from the line of Rishabh Shah. Please go ahead.



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- Rishabh Shah** As we see in the previous quarters you have took hits of around Rs6 crores on a back of bankruptcy in a client in UK. Are you seeing any further sign of weakness in the European markets?
- Kamal Sarda** No major issues but I see only improvement signs should happen because of the several steps, measures being taken by the government, respective various governments to control the cheap imports. I do not see a major challenge but there could be one or two here and there but as of now, no.
- Rishabh Shah** So the amount of approximately would be one or two clients which you are saying would be in the similar range?
- Kamal Sarda** No, no that is one-off case. One customer remained bankrupt in UK. It is not that it is going to happen every quarter.
- Rishabh Shah** Okay, and my next question is the capacity utilization, product and plant wise can you provide?
- Kamal Sarda** I think what we will do is we will sit with Shogun separately and then we will provide but in the average I can tell you, India is one of the product group. Our average capacity utilization would be about 75% to 80% for ISO Products and for rest of the product group it would be about 50% to 60%.
- Moderator** Thank you. As there are no further questions I will now hand the floor over to Mr. Kamal Sarda for his closing comments. Over to you sir.
- Kamal Sarda** Thank you very much. Thanks gentlemen. I hope I have been able to answer most of your queries. Some of the queries which I have not answered can be passed onto our investor relation advisor, Strategic Growth Advisor and we look forward to your participation in the next quarter. Thank you very much and all the best.
- Giorgio Cappelli:** Thank you from my side too.
- Moderator** Thank you. On behalf of IFGL Refractories Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.