



“IFGL Refractories Limited Q3 & 9M FY2019 Earnings Conference Call”

February 19, 2019



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LIMITED**



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Moderator: Ladies and gentlemen good day and welcome to IFGL Refractories Limited Q3 and nine months FY2019 Earnings Conference Call. 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 date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 telephone. Please note, that this conference is being recorded. I would now like to hand the conference over to Mr. Kamal Sarda - Director & CEO. Thank you and over to you Sir!

Kamal Sarda: Good afternoon everyone. On behalf of IFGL Refractories, I warmly welcome you to our Q3 and nine months FY2019 earnings conference call. I have with me our investor relation advisors SGA. I hope you have had a chance to go through our Investors presentation uploaded on the stock exchanges.

A brief update on the steel industry, as per the WSA figure the global crude production is expected to grow from 1648 million metric tonne to 1696 and 1708 by 2020. This goes well for the refractory players like us. Most of the growth is expected to be driven by the developing countries other than China. India produced 96.9 million metric tonne, which is an increase of about 5% Y-on-Y basis during January to November 2018. China on a similar period produced 857 million metric tonne, which is a 7.5% increase. Asia excluding India and China grew by 2.5% reaching to 204 million metric tonne during the same period. North America posted a growth of 3.8% on Y-on-Y basis whereas Europe remains comparatively flat during this period.

As per the latest data of WSA, India has surpassed Japan to become second largest steel producing nation in the world. This is on the back of rapidly growing domestic demand from sector such as construction, real estate, capital goods, consumer, automobile, energy, etc. This is evident from the fact that Indian steel consumption increased by 7.9% during FY2017-18. The association also expects India to become the second largest consuming nations by end of 2019. The steel demand is expected to grow by 7.3%. Further the increase of domestic steel demand for the price stability supporting macroeconomic sector and decline of Chinese steel capacities over the next decade is further expected to be in favour of India. With the global steel demand expected to be on uptake along with the sustained strong demand in the domestic steel industry, the outlook of refractory sector remains positive and we expect to benefit from the same.

I will now move on quickly and give you a brief on our financial performance of Q3 and nine months. Consolidated performance for the nine months, our total income was Rs.695 Crores up by 14% Y-on-Y whereas for Q3 FY2019 the total income grew by 11.7% to Rs.236 Crores. EBITDA for nine months was Rs.87 Crores as against Rs.76 Crores during nine months, which is a growth of 14.5%. EBITDA margin for nine months was 12.6% versus 12.5% during the same



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period last year. EBITDA for Q3 was Rs.24.3 Crores showing a growth of 3.3% on an Y-on-Y basis with a margin standing at 10.3% as against 11.1% in Q3 FY2018. Goodwill write-off for the quarter was Rs.6.7 Crores and for nine months this was Rs.20.1 Crores. PAT was Rs.37.4 Crores during nine months whereas it was Rs.8.2 Crores in Q3 posting a growth of about 37% and 24% respectively on a year-on-year basis. Cash profit was Rs.74 Crores in nine months as against Rs.69 Crores in nine months FY2018 showing a growth of 6.7%. Cash profit for Q3 was Rs.20.4 Crores compared to Rs.20.2 Crores in Q3 FY2018.

On a standalone basis, the total income stood at Rs.352 Crores in the nine months up by 9.5%, EBITDA for these nine months was Rs.57 Crores as against Rs.52 Crores during FY2018, and EBITDA margin was Rs.16.2 Crores, which is same as last year. PAT for the nine months is Rs.18.4 Crores, a growth of about 42.5% on year-on-year basis.

On the international businesses, EI ceramic continues to do good. The income for the nine months was \$14.9 million dollars showing a growth of 19.2% on a Y on Y basis. EBITDA for nine month was \$2.3 million posting a growth of 21% with the margins at 15.5%. While PAT was \$1.7 million posting a growth of 55% on Y-on-Y with a PAT margin of 11.4%.

Monocon, the UK subsidiary for nine-month, reported total income of GBP 21.6 million, a growth of 14% year-on-year. EBITDA was GBP 1.7mn posting a growth of 13% with a margin of 7.9%. PAT grew by 20% to GBP 1.2 million with a PAT margin of 5.6%.

Hoffman business, total income for the nine months was €7.7 million, a growth of 6%, EBITDA was breakeven while PAT was slightly negative of € 0.3 million. This is the brief of our financial performance. I will be happy to answer any questions if you all have.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take the first question from the line of Kiran Naik from Modi Fincap. Please go ahead.

Kiran Naik: I would like to know your cash conversion cycle is for 125 days, it is every year or only for this year, for March 2018 it was 125 days, what will be it for March 2019?

Kamal Sarda: I have not calculated that, but I think there is nothing unusual this year.

Kiran Naik: Okay. It is 125 days every year or it is 100 day?

Kamal Sarda: I need to calculate, honestly I will come back with that, I do not have that ready figure with me, but as I said it is nothing unusual, which has happened this year, it should be very similar.

Kiran Naik: One more question compared to March 2018 what will be the revenue growth for March 2019?

Kamal Sarda: March 2019?



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- Kiran Naik:** Yes, revenue growth for March 2019 compared to March 2018, how much percentage growth we can see in revenue?
- Kamal Sarda:** On a consolidated basis, our revenue grew by about 14%; I am expecting this growth to be maintained.
- Kiran Naik:** Okay and EBITDA margin will be how much compared to March 2018 for March 2019?
- Kamal Sarda:** This is I said I do not give any kind of forecast profitability.
- Kiran Naik:** No, I just asking rough figure after giving the Q3 results, how much rise in the margin you are expecting?
- Kamal Sarda:** We will maintain this.
- Kiran Naik:** 14%?
- Kamal Sarda:** Yes, I think our EBITDA margin are about 12.6% on a consolidated basis.
- Kiran Naik:** Okay. Thank you from my side.
- Moderator:** Thank you. Next question is from the line of Abhisar Jain from Centrum Broking. Please go ahead.
- Abhisar Jain:** Good afternoon. Sir just wanted to know about the possible reasons for some margin pressure, which we have seen in the domestic business for Q3 specifically though we had a very good revenue trajectory maintained, but there seems to be some margin pressure, which has also seeped into the consolidated results for this quarter, so if you can just give the reasons there and the trajectory going forward?
- Kamal Sarda:** Q3 is usually a lower quarter for us that is number one and if you go by the last years Q3 also was a lower number, Q2 is always better and Q4 seems to be a good quarter for us. That is how I have seen the trend in Q3, but one of the major factor has happened over the last one year or so, the input prices have gone up and I think the major impact has happened in Q3 this year plus we had some issues of rejections, so that has also resulted in higher raw material cost, that was one of the major reason for our lower profit, but I hope the Q4 should be comparatively better.
- Abhisar Jain:** Sure Sir and because of some of these reasons that you just mentioned was that the reason that there was a big increase in the purchase of traded goods also in the RM side, in the P&L on both standalone and consolidated level?.
- Kamal Sarda:** That may not be that reason, could be one, that maybe this quarter are traded say slightly higher, it is slightly higher compared to last quarters and usually in the traded goods the margins are



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- lower in our case. That is also one of the factors, but overall the raw material cost, there were some rejections and overall the customer product mix has also resulted in slightly lower margins.
- Abhisar Jain:** So this increase in traded goods might be slightly one off unique to this quarter. This will not be the usual run rate right. Usual run rate is what we have been having?
- Kamal Sarda:** Usual run rate will be what we have been having.
- Abhisar Jain:** Okay, understood Sir and in terms of the outlook Sir, in terms of on the growth outlook going into FY2020, we had I think ramp up of the Indian operations at Kandla from the last expansion, so what stage we would be there in terms of utilization, how much extra can we churn out from the domestic operation for FY2020?
- Kamal Sarda:** Kandla operations as I mentioned in the presentation would come sometimes in Q4 of next financial year.
- Abhisar Jain:** No Sir, that is the new expansion, but the previous also the additional 80000 pieces that we had commissioned last year.
- Kamal Sarda:** Previous expansion we are running close to 70%, 75% on the expanded capacities. In the next financial year, we should ramp up to anywhere between 85%, 90% levels which is the optimum level at which one can go on an average basis. I think next financial year we should go to that final level there.
- Abhisar Jain:** And Sir, the new expansion that you had announced in Q2 and also you have reiterated those things in the PPT of Q3 that first phase will come in H2 FY2020 correct, March 2020?
- Kamal Sarda:** I am hoping to get it completed by Q3, but I have mentioned it Q4, but Q4 would be somewhere like a trial period where we will do a trial production, so that is why I mentioned Q4.
- Abhisar Jain:** Q4 of FY2020 right?
- Kamal Sarda:** FY2020, but we hope to complete the project, installing and commission the project by Q3 that is our target.
- Abhisar Jain:** Okay, so I think Sir maybe you can look there is inadvertently in the PPD on slide #19 it is mentioned March 2021?
- Kamal Sarda:** No it is March 2020. That is a mistake.
- Abhisar Jain:** Just lastly on the overseas operations, the European subsidiaries particularly in this quarter again came under pressure and Hoffman continues to be in EBITDA loss territory, so any comments there Sir?



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- Kamal Sarda:** Hoffman, overall the German market is becoming too competitive and they are also becoming like cost conscious, so there is a bit of a concern which I also raised in the last quarter results. We are taking a lot of steps; there has been lot of expenditure. So we are committed to that company, we had spent close to about 1.5 to 2 million Euros for upgrading that facility and debottlenecking. We had some issues with regard to environment and all, but that is not affecting the profitability as such. Overall the margin pressures are there in Europe market. That market is not willing to accept the price increase. So the cost increase, whichever is happening this company is absorbing in the last one, one-and-a-half year. So there are pressure there, we are taking steps. We hope the next financial year should be good, I am not saying Q4 will be good. I am hoping the Q4 will be in the similar line, but the next financial year whatever steps we have taken and we had upgraded these facilities, we had gone into new furnaces, dismantling the old furnace because of some environmental regulations and all. The new furnace is also giving some initial stabilization issues, so there the rejection rates have also gone up substantially significantly, I am saying this Q4 will be a period of stabilization and then from next year onwards, we hope that this thing should get reversed.
- Abhisar Jain:** At Hoffman right?
- Kamal Sarda:** Yes.
- Abhisar Jain:** And about Monocon Sir, because Monocon actually our performance was quite stable in the last four quarters, but this quarter, the margin seems to have come under pressure, top line has been good, because there I was seeing lot of stability in the last four, five quarters, it was in a range, so anything extreme happen this time in this quarter?
- Kamal Sarda:** Nothing, as I said Monocon's profitability becomes slightly better. When we are in a position to export or sell some engineering goods, these engineering goods sometimes happens in a quarter and sometimes are deferred. So with the slight slowdown in the industry, which has been noticed in the last quarter, there were one or two projects which have got deferred which so happened in this quarter, which will get deferred too, not only for Q4 of this year, but to next year.
- Abhisar Jain:** Right. I understood Sir. That is all from my side and best of luck.
- Moderator:** Thank you. The next question is from the line of Rushit Parekh from Capital Market. Please go ahead.
- Rushit Parekh:** Thank you for the opportunity. Sir at the time of acquisitions, we had discussion during the call as well the broad guideline which the management had made earlier was ultimately to bring the international subsidiaries margins per se and what the domestic margins are? So domestic EBITDA margins roughly hover around 16%. I just want to understand a) by what timeframe these international subsidiaries will move towards this margin of 15% plus and b) what are the extra efforts or the working that per se still remains to be done from the management side?



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- Kamal Sarda:** One, I do not remember when it I said this that we will be in a position to bring in the overseas margins to the Indian margin levels, I do not remember even if I said maybe it was my mistake, because that is not it can happen. The overseas product other than EI Ceramics which is in fact in a better margin scenario, all the other Monocon and Hoffman will remain at a lower margin levels always.
- Rushit Parekh:** So is there any scope in Monocon margin improvement from the current level Sir?
- Kamal Sarda:** Not a very significant scope. We are trying to add few more products there, but when it will happen I do not think I will be able to tell you that exactly in couple of quarters from here. We are trying to improve the profitability there, but to bring those margins to a level of IFGL India; I do not think it will be too quick.
- Rushit Parekh:** Is there any further investment that is required on these any of these subsidiaries...?
- Kamal Sarda:** We have done investment in Hoffman.
- Rushit Parekh:** When you did that, we discussed that.
- Kamal Sarda:** I reply to in the last thing, but other than that it will be smaller investments here and there.
- Rushit Parekh:** Fair enough and something on the global pressure, the talks of the trade war, the localization, the capacities being preferred more as a local perspective, will those guideline for the policy measures, do anyway concern or affect any of the subsidiaries?
- Kamal Sarda:** No, we have not felt anything of that sort. We have not felt except to the fact I would not say we have not except to the fact that we used to sell some products from China to US which is now not happening because a lot of protection measures taken by US to import from China. We have shifted that production from China to UK and UK exporting to US and we see the margins are slightly comparatively lower there. Other than that we have not felt anywhere.
- Rushit Parekh:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Ankit Agarwal from ARC Capital. Please go ahead.
- Ankit Agarwal:** Thanks for the opportunity. A couple of questions with the first one being what are our gross debt currently?
- Kamal Sarda:** It is not very significant the total debt as of December would be about Rs.22 Crores on a group basis, long-term debt I am talking of. It is not significant.
- Ankit Agarwal:** Okay and like how do you plan further capex than like?



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- Kamal Sarda:** It will be mix of both in internal accruals as well as debt. So we have not taken any debt as of today, but we will be taking some small debts or loans for our investment in Kandla.
- Ankit Agarwal:** Okay Sir that is about it from me. Thank you.
- Moderator:** Thank you. The next question is from the line of Amit Shah from AM Securities. Please go ahead.
- Amit Shah:** My first question is has the working capital cycle improved across our major geographies?
- Kamal Sarda:** There is no significant change into it. It is almost same.
- Amit Shah:** Okay and what are the utilization levels across our plants, if you can?
- Kamal Sarda:** India is running at around close to 70%-75% levels, EI ceramic is about at 70% levels and Hoffman is also around at 75%-80% levels, and China and UK are at 60% levels.
- Amit Shah:** Okay and how much of our top line growth was because of volume driven and value driven if you can give a breakup?
- Kamal Sarda:** I think most of the growth if I am not wrong, I do not have ready figures with me, but most of the growth are quantity driven?
- Amit Shah:** Quantity driven, okay and what was currency benefit that we got because of the currency up movement?
- Kamal Sarda:** We do not have the numbers readily available.
- Amit Shah:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Abhisar Jain from Centrum Broking. Please go ahead.
- Abhisar Jain:** Thank you for the follow-up. Sir just had a follow-up question on the pricing. Since there has been some pressure on the gross margins and RM prices have been very volatile I think what is the industry action right now Sir on the prices has there have been any effort to increase prices at any success and all there?
- Kamal Sarda:** See we had success in last year in the Q1 and Q2 and some bit of any Q3 also, but now with the last few months, the raw material prices are on a stable platform. So I think going forward price increase is something which we are not looking at exactly it will be difficult now to justify because now see all these are steel majors okay, they know the market very well. They have been taking our price increases..



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- Abhisar Jain:** So Sir just to put it in another way in the sense that from here with raw materials also now stabilizing even without price increase would we see some gross margin improvement in the coming quarter or without the price increase, we do not expect much improvement in the gross margins?
- Kamal Sarda:** Gross margin for this particular quarter is an exceptional thing, I think going forward should be better, I am not saying it will be I cannot comment on the future thing, but that last quarter was exception to this.
- Abhisar Jain:** I understood and Sir just one more clarification on the nine months revenue number if we see, we have had say around 12%, 13% growth in that pricing growth would be of what some couple of percentage points or will it be significant?
- Kamal Sarda:** I do not have ready figures Abhisar, but that said because you mentioned that at least some price rise went through right this year, but mostly in the domestic market. Nothing exactly I can tell you that how much is price increase out of it.
- Abhisar Jain:** And Sir last question on the domestic market outlook also given we have add some success now going through in the consolidation and IBC process and lot of those plants have now started ramping up if you see Monet, Electro steel, Bhushan which are closed cases they have started ramping up. So how is that demand outlook now Sir in the Indian market, how you are seeing it?
- Kamal Sarda:** Demand outlook I think India is and will be doing very good with these plants would again go back to their, I would say good management practices, but if you ask me today Essar is running almost virtually at full capacity. It is not that this management that management it is only efficient management will come and they will be no working capital pressures. Bhushan is running almost at a full capacity as a good capacity both Bhushan Angul and Bhushan Jharsuguda. Monet obviously will be revamped, but then this will bring in lot of efficient practices where they can debottleneck like I was in Usha Martin last month and they are at about 0.6, 0.7 maybe 50000 tonnes or 60000 tonnes per month, they are talking to take it 100000 per month in a short period of time once the Tata takes over. So those efficiencies will come in. That will improve overall refractory performances, their refractory requirements would change, they would demand a better quality of refractories which would imply that they would be willing to pay higher prices. All those things will come up.
- Abhisar Jain:** I understood Sir. Thank you Sir and very helpful.
- Moderator:** Thank you. The next question is from the line of Kiran Naik from Modi Fincap. Please go ahead.
- Kiran Naik:** Orient refractory is our close competitor?
- Kamal Sarda:** Yes.



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Kiran Naik: Okay and how much is your market share in this industry?

Kamal Sarda: In our flow control refractory, we will be about 14%, 15% level.

Kiran Naik: Okay. Thank you Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Kamal Sarda: Thanks all. I think it was wonderful session. I hope I have been able to answer most of your queries barring some. In case of any other queries, you may contact our investor relation advisors SGA and I look forward to your participation in the next quarter. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of IFGL Refractories Limited we conclude this conference. Thank you all for joining us. You may now disconnect your lines.