"IFGL Refractories Limited Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Earnings Conference Call of IFGL Refractories Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamal Sarda. Thank you and over to you Mr. Sarda!

Kamal Sarda: Dear all. On behalf of IFGL Refractories, I warmly welcome all to the Earnings call of quarter one 2014-15 based on the unaudited results published by the company. I have with me Mr. Rajesh Agarwal, Company Secretary and our Investor Relation advisor, SGA.

I shall start the discussion on our financial performance published for quarter 1. On a consolidated basis, our revenue was 204 Crores a growth of about 12.57% on YOY basis. EBITDA stood at about 31 crores and we achieved a margin of 14.6%, which is an improvement of 116 basis points YOY.

Our PAT stood at 19 crores registering a YOY growth of 29.5%. All our subsidiaries have performed satisfactorily in this quarter. India's sales on the consolidated basis stood at about 19% of the overall sales and the international sales was balance 81%.

Rationalization of cost and stable rupee against major foreign currencies helped us improving the margin. Our standalone India business achieved a turnover of 81 Crores, improved the EBITDA margin by 200 basis points to 14.4.

In terms of mix of sales 47% was domestic sales and 53% were export sales for the IFGL India Operations.

Coming to our international business, Monocon business recorded a turnover of 84 Crores with an EBITDA of about 7 Crores, EI ceramics recorded a turnover of 27 Crores with an EBITDA of 4.5 Crores, capacity utilization is currently at its optimum and it is here we are doubling the capacity by the year end. Hoffman Germany business recorded a turnover of 24 Crores with an EBITDA of 2.5 Crores. The Gujarat subsidiary IFGL Refractories recorded a turnover of 12 Crores with an EBITDA of 3 Crores.

We continued to remain positive on the Gujarat operations and we are working towards doubling the capacity by the year end. In this plant, IFGL Refractories, the listed company owns 51%. We are seeing early signs of recovery in the Indian economy. We believe the commitment of the government towards the infrastructure building, which in turn will improve the demand for iron and steel in the country. This will lead to increased consumption of refractories and IFGL will be a direct beneficiary for this infrastructure impetus.

On the global fund, we are seeing a steady economic recovery led by US and Europe. Our cost efficient production facilities at present is more than 50% of steel producing countries enables us to enhance our performance.

With the doubling of capacities in Gujarat and the US subsidiaries by this fiscal year we are confident of improving our presence with customers across geographies. We are however cautious about the development in the Ukraine as that may affect our revenue. I shall now leave the floor open for any questions and answers.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Giriraj Daga from Nirmal Bang Equities. Please go ahead.

Giriraj Daga: Good afternoon Sir. Congratulation for a good set of numbers. Sir, a couple of questions. If I look at purchase of finished goods that has gone up substantially year-on-year, so has it been more of a trading activity is that imply something on that accord. How is the accounting there?

Kamal Sarda: No, I think there is no major change in the trading activity as such. You are talking about the standalone numbers.

Giriraj Daga: Consolidated numbers, because if I look at purchase of finished goods that number on a year-on-year basis has gone up from 4.5 Crores to 18 Crores. So that is roughly close to four times that number has gone up.

Kamal Sarda: Giriraj, I think there is something wrong. Purchase of stock and trade, March quarter was 1680 and June quarter is 1870.

Giriraj Daga: Maybe some reclassification.

Kamal Sarda: Yes.

Giriraj Daga: My next question is if I look at the margins on a segment wise basis earlier we are sustaining around the margin was around 10.2% to 10.8%, so that has dropped as against this was offset by the Asia and American, so will you continue to see this kind of fluctuation or like the margin profile happening in the outside India?

Kamal Sarda: Margin outside India on an overall basis has improved. You know one of our subsidiary is German subsidiary has done quite well in this quarter, so I do not see any significant shift in margins. That will continue.

Giriraj Daga: What is the gross debt and net debt because if I look at the net interest outflow that has fallen substantially now?

Kamal Sarda: Yes, one of the primary reason is debt is coming down and second is on the net interest basis in our IFGL Refractories, the Indian balance sheet we have some cash deposits, so that is the interest which we earn.

Giriraj Daga: So what is the gross debt we are having right now?

Kamal Sarda: Gross debt, our long-term debt is about 57 Crores in the March.

Giriraj Daga: Working capital including?

Kamal Sarda: 117 Crores.

Giriraj Daga: Sir last question and it is more of like the strategic intention point of view, like Kandla unit is doing extremely good and now we are stabilized also in that unit, so do not you think there will be some point in time in future there can be a future conflict because of this unit is not fully owned by the company, so do we have any plan to let us say over a period of time that certain size of the plant to merge this unit with IFGL standalone operation or IFGL entity because this is 51% subsidiary so it is neither…?

Kamal Sarda: One there is no clash of interest as such because in any case 51% is owned by IFGL and 29% is owned by the Bajoria and 20% is owned by Krosaki Harima, which is a very close and within the same promoter group which is there, but I do not see any clash of interest and you know I cannot say that in future it can be merged or it cannot be merged.

Giriraj Daga: Thanks a lot. That is from my side.

Moderator: Thank you. The next question is from the line of Vishal Gala from Viktor Advisors. Please go ahead.

Vishal Gala: Actually I have two questions. The first question is can you please give me the FY-15 growth prospects. The second question is regarding this EBITDA margin guidance if you can please provide me with the guidance?

Kamal Sarda: The growth prospect I think in our previous interviews I had mentioned that we are talking of targeting a growth of about anywhere between 10% and 15% and EBITDA margins I would not give any kind of guidance, I would like to maintain that margin.

Vishal Gala: Thank you.

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

Umesh Raut: Good afternoon. Congratulations for the good set of numbers. Sir just wanted to understand the strategy on the Asia excluding India operations, we have seen 18% YOY degrowth and revenues from that operations, so going forward how do we see our strategy of Asia excluding India operations.

Kamal Sarda: Asia excluding India is the Chinese operation.

Umesh Raut: Yes right.

Kamal Sarda: Chinese operation is nothing but a production facility for that to be world operations. You know that gives based on the orders procured by the other group companies they produce and then they supply. That will continue to do well.

Umesh Raut: Sir, as we are seeing the change in depreciation policy, so on overall FY-15 level what is your guidance for depreciation.

Kamal Sarda: If you see the quarterly published result there is a note on that. There is nothing much substantial impact on a consolidated basis. You can see that in the published result. There is a note on this.

Umesh Raut: Thank you very much.

Moderator: Thank you. The next question is from the line of Bhalchandra Shinde from B&K Securities. Please go ahead.

Bhalchandra Shinde: Good afternoon Sir. Regarding the market share I would like to know what will be the exact market share in Indian Refractories market IFGL will be experiencing?

Kamal Sarda: We manufacture specialized refractory from the steel making side. In our product segment we should be anywhere around 15% market share.

Bhalchandra Shinde: Sir your nearest competitor will be Orient Refractories right?

Kamal Sarda: Vesuvius India is also, Orient OCL.

Bhalchandra Shinde: Sir do we see any additional threat after RHI buying steel stake in Orient Refractories, like new technologies coming out of Orient Refractories. Do we see that kind of threat for your company?

Kamal Sarda: The RHI has always been there in India before also. We do not see any threat. That will be good for the Indian Steel Industry and as a competition it will be good.

Bhalchandra Shinde: Sir our Indian operations will be largely dependent on how the steel industry pans out right? Apart from India and I guess operations now which will be means like UK is another operation which we have significant contribution in the turnover apart from UK any other operations like South Africa we are targeting or any other operations are we targeting?

Kamal Sarda: Nothing that we have any in buy plan as of now to speak about.

Bhalchandra Shinde: Thank you very much.

Moderator: Thank you. The next question is from the line of Samarth Sanghavi from Philip Capital. Please go ahead.

Samarth Sanghavi: Good afternoon Sir. Thank you so much for taking my questions and congratulations on a good set of numbers. Sir broadly could you just give me some kind of a timeline on the execution of our expansion facilities if you could just get some kind of timeline by when there would be commission, both Kandla and US?

Kamal Sarda: US will be commissioned by this fiscal end and Kandla should be first quarter FY 2015-2016.

Samarth Sanghavi: First quarter FY 2015-2016?

Kamal Sarda: Yes.

Samarth Sanghavi: Alright Sir. Sir just broadly picking up from the previous question with respect to international operation, broadly we have seen good set of numbers and good set of guidance's is coming from European market players like ArcelorMittal. They have given good numbers, but however that was not reflected in some of the Indian steel manufacturers barring one or two, Tata steel also had a flattish kind of a quarter, so have we seen some better signs internationally or is it more of a blip for one quarter?

Kamal Sarda: I think the signs are quite good, but point is the action may take a bit of a time.

Samarth Sanghavi: I mean in the sense that.

Kamal Sarda: We get the benefit out of it.

Samarth Sanghavi: I believe we are also suppliers to ArcelorMittal in the international market, so have we seen an uptick in orders or is it just that you know for them they would get their first age of orders and then they would grow first and then they would give us orders.

Kamal Sarda: Refractories will be required that they are directly being to the steel production. We have seen the signs of improvement in their offtake only.

Samarth Sanghavi: How has pricing been able to move? Have there been any increases in prices over the past couple of quarter Sir?

Kamal Sarda: There is no significant increase.

Samarth Sanghavi: So broadly we will be able to maintain the margins at these current levels, would that be a safe assumption at these levels?

Kamal Sarda: Yes, at that is our target that we have to maintain and if not improve it.

Samarth Sanghavi: Just one question what would be the entire cost of the capex that we are doing in Kandla and US Sir combined?

Kamal Sarda: It is about $2.5 to $3 million.

Samarth Sanghavi: Thank you so much Sir.

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

Sri Shankar: I have got a couple of questions. My first question is related to your capex, sorry if I am repeating it. If I look at over the last four years, the capex has increased gross block has moved up from consolidated level from 273 to 407 Crores. What is it that you are planning over the next couple of years from FY 2015 FY 2016 etc., total capex?

Kamal Sarda: As I mentioned this $2.5 to $3 million will be the incremental capex for capacity expansion, which is planned and there is a phase III of our Gujarat plant expansion, which should come after that, so that should be another $2.5 to $3 million. That is the planned expansion as of today apart from that is the normal capex, maintenance capex what we call, but you are talking of the increase between 270 and 400 Crores there are two major factors which are there. One is the Gujarat plant coming in, so that is one and then second one of the major factors which would play the exchange rate. When you convert the overseas operations into Indian rupees and the exchange rate comes in. In 2010 we acquired EI ceramics. I do not know which, so those are the three-four factors which has led to the increase in the gross block.

Sri Shankar: So is it safe to assume that your next couple of years capex apart from your maintenance capex again that gone would be somewhere around 5% of your gross block?

Kamal Sarda: No it could be more. See if I am talking of 3 and 3 of 6 million.

Sri Shankar: No that is extra capex. You talked about maintenance capex. I am asking about the maintenance capex?

Kamal Sarda: Maintenance capex is need based. So it should be around that.

Sri Shankar: Okay, so you are not expecting to see a significant increase in the capex.

Kamal Sarda: I would not be able to say no to this because there are certain things which are in our pipeline but as of today I do not want to comment on that.

Sri Shankar: Okay, now the reason I asked this question is if I look at the similar time period your borrowings, which used to stand at somewhere around total debt I am speaking around 125 Crores has gone down to 117 Crores, but somewhere during the conversation you mentioned that you have got a long-term debt of around 57 Crores and a working capital of 117 Crores as on date. Am I right?

Kamal Sarda: No, no, 117 is total debt.

Sri Shankar: Okay. So working capital is another 59 Crores.

Kamal Sarda: Yes, that is right.

Sri Shankar: So that borrowings have remained almost at the same level as at March end.

Kamal Sarda: But the net borrowing has reduced, we have got cash in hand, so net debt is lower than March.

Sri Shankar: Net debt is lower than March. The other question is again your 50% revenue is coming from international operations as at 44% from domestic and I do not know whether I got that right in your presentation that was the numbers I saw?

Kamal Sarda: This is what the Indian side of business.

Sri Shankar: Indian side of business.

Kamal Sarda: IFGL refractories, Indian plant, not on the global side. The global side the Indian business is about 19% to 20%.

Sri Shankar: 81% is international sales, is it right. So again if you can explain about the subsidiary and the promoter's 51% subsidiary little more in detail, it will be great?

Kamal Sarda: Can we take this question offline somewhere I will request SGA to coordinate this.

Sri Shankar: Sure.

Kamal Sarda: Thank you.

Moderator: Thank you. The next question is from the line of Bharat Subramanium from Sundaram Mutual Fund. Please go ahead.

Bharat Subramanium: Good afternoon Sir. Thank you for the opportunity. Sir just one question on the Indian operations what would be the strategy would Kandla be used purely for exports and at the same time if say domestic opportunities pickup in the next two years as new capacities come in would the Odisha capacity be surplus to service it, how exactly would the Indian growth be catered to?

Kamal Sarda: Kandla operation is in special economic zone, so that is meant for exports. So obviously between the two plants we will decide which the most beneficial thing is.

Bharat Subramanium: So as of now Kandla does not sell anything the domestic tariff area.

Kamal Sarda: No, not significantly.

Bharat Subramanium: In terms of our Indian operations I was just looking at the standalone numbers x Kandla, so it has been kind of flat on a yearly basis, so as we see both say Tata and all others commission new furnaces in the next two years how exactly is our relationship with the major steel players Sir. I mean today we already having sales with Tata's and Jindals?

Kamal Sarda: In our IFGL Refractories business Tata, SAIL, RINL, Jindal would be major customers. I think if they grow we will also grow.

Bharat Subramanium: That requirement is serviced out of Odisha plant?

Kamal Sarda: Yes. All the domestic business would be served from the Odisha plant.

Bharat Subramanium: How exactly is our capacity there Sir, if tomorrow to cater to growth is there enough capacity or we need to invest at some point of time?

Kamal Sarda: No there is capacity.

Bharat Subramanium: So the investment would be only restricted to Gujarat at this point of time?

Kamal Sarda: Yes that is right.

Bharat Subramanium: Secondly, in terms of the domestic pricing are you seeing any signs of increasing competition within the domestic front or is it relative to the last three four quarters it has been the same or you seeing any marked increase in competition?

Kamal Sarda: No, no there is no increase in competition. I think it is flatter. It is the same.

Bharat Subramanium: What would be our exposure to the mini steel mills in terms of our suppliers in the domestic market, how significant it would have been if you were to demarcate the major place in the mini steel mills?

Kamal Sarda: Our major business is with the integrated steel business, the large steel mills. Mini mills business in the overall percentage would be less.

Bharat Subramanium: That is it from my end. Thank you.

Moderator: Thank you. The next question is from the line of Laxmi Narayan from Catamaran. Please go ahead.

Laxmi Narayan: Good afternoon Sir. I have couple of questions. What is the target in terms of topline for some kind of a direction in terms of revenues for domestic Indian market which is made in India and sold in India for you, what is the current quarterly runrate and how much we think we can actually achieve for the full year? That is the first question. The second, if you just look at your page no. 13, in which you actually gave your product range for static refractories and so on, now which is the one which is largest category of product for you from the Indian domestic market? That is the second question. The third question is in the last six months or the last three months how the Indian domestic market enquiries have been. Have we got some new orders or how is it? So these are three questions I had.

Kamal Sarda: The domestic business will continue to grow based on the incremental capacities which are coming up. The guidance for that I would say that going by our past trends we have grown by about 15% to 16% in the past, we think that we will continue to grow like that.

Laxmi Narayan: That growth when you say 15% you have the underlying steel volume growth that is there for the industries and extra growth it would come from the realization mix or how is that?

Kamal Sarda: Pardon.

Laxmi Narayan: The steel industry in India grows may be on a 10-year basis 5% to 7%, correct me if I am wrong in terms of million tonnes of steel output, from the integrated last steel plants right. Now when you say 15% growth so the additional growth of 8% would come from better product realization or how is it going to come from?

Kamal Sarda: See it is a product mix, it may be a bunch of issues, it may be a product mix, may be a better price realization, and all sort of factors, but that if you look at our past record, past four five years you look at our CAGR has been about 16% to 17% so if we look at the past five years, Indian steel industries grown by 6.5% to 7% only. Indian steel industry has grown by 6.5% only that is adding new customers maybe getting new businesses, getting into more value-added products that way. That would be bunch of issues which will give us the additional business. Now can you repeat your second question?

Laxmi Narayan: Second question is from your page 13, which you have given the various product ranges?

Kamal Sarda: Our major product is isostatically based product. That is our major business if you talk of.

Laxmi Narayan: From that Krosaki Harima themselves have particular arrangement with Tata Refractories right. Now is that a place where you do certain things and they do not achieve coming to a place, so they are not in dry processed refractory is that the case right?

Kamal Sarda: No TRL is isostatically product.

Laxmi Narayan: TRL is focusing on which part of the business, is it in the six anything to do?

Kamal Sarda: More into bricks.

Laxmi Narayan: Lastly when you talk about enquiries and new client additions in the last three to six months how it has been, have you kind of got some new orders?

Kamal Sarda: We have added two three new customers in the last six months.

Laxmi Narayan: Sir broadly from a customer point of view, like somebody who has more than 1 million ton integrated steel that sort of consideration set right?

Kamal Sarda: See as I mentioned to you that we are more focused on the integrated large steel mills.

Laxmi Narayan: Sir does it mean that if you have like sail is one customer or sail Durgapur is different from sail Bokaro because the procurement points are different?

Kamal Sarda: Different.

Laxmi Narayan: Different. Thanks so much Sir. I will come back in queue.

Moderator: Thank you. The next question is from the line of Abhisar Jain from Centrum. Please go ahead.

Abhisar Jain: Sir good afternoon. Congratulations again for great set of numbers. Sir just wanted a little bit on the EI ceramics expansion that is going to come next year. Sir if you can just throw some light in terms of how the demand is panning out in that region because we do not export much from India there and you know cater from EI Ceramics largely. So do we see some visibility on the orders for this new capacity and then in the next two to three years what kind of capacity utilization do you see in that new capacity?

Kamal Sarda: EI Ceramics is primarily focused on the US market and since our takeover of that company we have been discussing as to how to increase that and after discussion we found that there is a good amount of demand which they can cater to in the US market and when we talk of US again the Canada and Mexico market also they can serve from there and we see a good amount of interest once we increase our capacity, I feel that in the next two to three years it should be possible that we reach this new capacity also.

Abhisar Jain: Basically I am just coming from the point that because I do not think so there could be a steel production growth which will be as fast, so are you going to be able to acquire new customers whom you are not able to service because of capacity constraint as of now something like that right Sir?

Kamal Sarda: The new customers to us.

Abhisar Jain: New customers, so you see good amount of visibility in that front right?

Kamal Sarda: Yes, that is right.

Abhisar Jain: Sir, also in EI ceramics if I understand correctly we can have a next Brownfield phase expansion also is there a room there just like Kandla or is it on a peak out and once you do this 80000 more there?

Kamal Sarda: In the current location, I do not think there is much scope beyond this expansion, but I think which with the little bit of reengineering of the layout of the plant we can do, but there is another location of EI Ceramics which we can utilize if there is an expansion required. There are two plants of EI Ceramics. There are two locations, not exactly two plants, two locations. We can utilize the other one if required.

Abhisar Jain: Sir on the European business, there are two subsidiaries there. Sir in Europe basically the demand as well as the production seems to be improving but at a very slow cliff plus there is import also pressure there which we are coming to understand from the commentaries of the results of various steel guys so Sir can you throw some outlook in terms of our subsidiaries, how exactly they are going to be performing over the next two to three years?

Kamal Sarda: There will be a steady growth, the share in their performance we see a significant improvement in the UK market over the last couple of years and which is improving as the UK steel market is improving and as much as European steel market. I think our European subsidiaries are direct gainer. We can see a distinct signs of that in our Hoffman business this quarter. So I feel that they should be doing quite good.

Abhisar Jain: Sir with that improvement say utilization and all is there any specific capex requirements that you are seeing in those subsidiaries or just be maintenance in working capital that is all?

Kamal Sarda: There may be some capex, but I think as of now I am unable to speak on that immediately, but there may be some.

Abhisar Jain: But nothing major as of now, in the existing facilities that we have?

Kamal Sarda: As of now no.

Abhisar Jain: Thanks a lot Sir. Best of luck.

Moderator: Thank you. The next question is from the line of Giriraj Daga from Nirmal Bang Equities. Please go ahead.

Giriraj Daga: Sir just wanted to understand more on the domestic market what is scenario panning out on the unorganized players and are they continued to get shrink and the larger players like you IFGL or RHI is taking the share or how is that market happening? What is the profitability of that and what is your reading into it?

Kamal Sarda: See Giriraj that unorganized or the small refractory players would be there. You cannot replace them because the kind of segment which they catered to, we do not get into that segment. They would continue to be there.

Giriraj Daga: But it is said what we are reading is even though steel production is getting shrink so that much benefit would come in to you?

Kamal Sarda: Yes you are right. The major expansion which is coming ease in the integrated large steel mills, I think there we would be gainer, but let me tell you in the large steel mill also there are certain low-end refractories which are required. That would continue to be served by these smaller refractory players. If you talk of the Rs.5000 per ton to Rs.10000 per ton, our overheads do not make sense, I think there they would continue to be there.

Giriraj Daga: Like you have top four players which include you, Vesuvius, ISA, and Tata Refractories these four players would you contribute to 50% 60% on the market share or higher than that?

Kamal Sarda: Yes I would say four of us RHI, TRL, Vesuvius, ORL, and OCL put together would be close to 50% 60% if not more, if you add Calderys also.

Giriraj Daga: Sorry.

Kamal Sarda: Calderys. We are talking of close to 60% or if not more.

Giriraj Daga: Thanks a lot.

Moderator: Thank you. The next question is from the line of Rahul Soni from Baljit Securities. Please go ahead.

Rahul Soni: Good afternoon Sir. Congratulations on posting very good set of numbers. Two questions from my side. You have mentioned revenue growth target of 10% to 15% for the financial year 2015?

Kamal Sarda: We said that we have been growing fast on similar numbers that is what we are expecting also.

Rahul Soni: So actually you have grown at around 17% in the last financial year. Is not this guidance is conservative.

Kamal Sarda: I am saying days in our past records there is a kind of growth which we can look at.

Rahul Soni: Sir can you mention what kind of growth you are expecting in different kinds of market like in Europe, America, for domestic market, what is your growth expectation based on geographies?

Kamal Sarda: I think we do not have a very different growth targets for each thing, but on a global basis this is our target.

Rahul Soni: But in Europe your growth was 26%, which was the highest last year?

Kamal Sarda: It was primarily because of the exchange rate and one of the major factors was steel grid.

Rahul Soni: Sir in your presentation you have mentioned that you have plans of entering new markets and new products and some acquisition plans, can you just highlight this?

Kamal Sarda: This is our growth plan. That is where we mentioned in that. That is our growth plan. How do we grow, grow into new markets, new products, and the new acquisition, Greenfield, or a Brownfield or inorganic for the growth. But we do not have any kind of thing to share to you as of now on any acquisition.

Rahul Soni: Thank you.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to Mr. Sarda for his closing comments.

Kamal Sarda: Thank you gentlemen. I hope I have been able to answer most of your queries satisfactorily. In case there are certain things left, you may send a mail to our advisors and we will be able to answer to that. So I leave it to you that you can raise the questions to our investor relation advisors and strategy growth advisors for any future queries. Thank you gentlemen!

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