



“IFGL Refractories Limited Q1 FY16 Earnings Conference Call”

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Moderator: Ladies and gentlemen, Good Day and Welcome to IFGL Refractories Limited Q1 FY16 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. The statements are not guarantee of the 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 now hand the conference over to Mr. Kamal Sarda. Thank you and over to you, sir.

Kamal Sarda: Good evening everyone. On behalf of IFGL Refractories I extend warm welcome to all of you to the earnings call for Q1 FY16 financial results of our company IFGL Refractories. I have with me today Mr. Giorgio Cappelli – Director, Monocon Group and head of our overseas operations, Mr. Rajesh Agarwal – Company Secretary and Strategic Growth Advisor our Investor Relations Advisor. I hope all of you have received the investor presentation and you have got a chance to go through it, it is also hosted on our website.

Starting this quarter we have introduced local currency financials for our international subsidiary to give you a better understanding of our performances. Let me introduce Mr. Giorgio Cappelli who has recently joined our group. Mr. Giorgio is a Doctorate in Industrial Chemistry from Milano University, Italy and was a Board Member and COO of Steel Division of RHI AG Vienna which is one of the leading player in the refractory industry. We are happy to have him in our group and warmly welcome him. His vast experience will help the group grow at much faster rates. I now request Mr. Cappelli to introduce himself and give you a broad perspective and prospects of the industry. Mr. Cappelli-

Giorgio Cappelli: Thanks Kamal and first of all I want to thank and to say good evening to everybody. So first of all I would like to thank Mr. Shishir and Mr. Pradeep Bajoria for giving me the chance to be a part of a dynamic Indo Flogates Group with commitment to the customer to help them to produce clean metal with the best quality products and to grow.

I studied in the University of Milano Industrial Chemistry and spent up to 32 years in RHI Group, starting in 1981 to work in the General Refractory Company Research Development Lab in Baltimore starting with a static refractory. Later on I moved to RHI Italiana where I was involved in planning a system and the installation of RHI product in the steel plant. In 1992 I became the CEO of RHI Italiana, in 1998 I was in charge of a steel of RHI Europe division located in Duisburg in Germany. In 1999 I moved to Vienna where I was elected in RHI Board in 2007 and as my position was COO of Steel Division, I was also the driver for acquisition for a major acquisition of ORL company in India and Stopinc the Isostatic division of Foseco

Now let me speak about vision about 2015. 2015 was a critical year for the steel producer, starting from China where it is the first year production in steel has decreased. The lower

international consumption will increase in China, we believe in 2020 because it will grow because of production of vehicles and they will reach over 32 million, now they are producing roughly 23 million. The Chinese plant is expected to reach this year at level 100 million of tons, if we compare Q1 of 2015 to Q1 of 2014, we have a growth in percent of roughly 41%. To rest of this huge export dumping prices and several states as USA and the UAE, Europe implemented anti-dumping duty to protect their industry. South Korea, USA, and Europe the steel production is decreasing in the first half of 2015 compared with first half of 2014. There are two countries are under-trending, Brazil and Iran. IFGL these suffered from this trend but we are implementing some new product on the market, investing new technology as well tight control of the cost and working capital has been allowed us to be of the meet this for the fiscal year 2015 and 2016.

Let me now hand back to Kamal who will now tell of operation and financial of the company. Thanks a lot.

Kamal Sarda:

Thank you Giorgio. I shall now give you a brief perspective of the operations in financials for the quarter gone by. Industry saw muted growth this quarter with a steel production recording lower volumes vis-à-vis Q1 2015 as well as Q4 FY15 as mentioned by Giorgio. Despite the depressed market conditions both in India as well as abroad, we believe we have performed well. While our top-line reflects the overall industry trend, we have been able to improve our profitability through operating efficiencies. Favorable realization on account of foreign currency have also helped in attaining better margins. Our India business continues to be stable, we have been able to achieve moderate growth at a time when steel industry is facing multiple challenges. We are positive of the steel consumption in India on the back of various Infra focus by the Government of India.

For the quarter ended June 2015, consolidated turnover stood at 185.8 crores, EBITDA stood at 26.1 crores registering a margin of 14.1%, an increase of 430 bps over Q4 FY15. PAT for the year was 15.2 with a margin of 8.2%, an increase of 390 bps over Q4 FY15. Our standalone performance was satisfactory on a top-line of 80.7 crores, our EBITDA was 11.9 crores and PAT was 6.38 crores, PAT margin was 7.9%, an increase of 112 bps over Q4 FY15.

On subsidiary performances, Monocon group business recorded a turnover of £6.18 million, EBITDA stood at £0.35 million with a PAT of £0.22 million and a margin of 5.7%. We continue to improve utilization levels at our plants while reducing our debt levels. Hoffman Ceramic in Germany reported an income of €2.85 million, EBITDA was €0.36 million with a margin of 12.6%, an improvement of 220 bps year-on-year, PAT was recorded at €0.22 million with a margin of 7.7%. We have introduced a new product for which successful production has commenced. EI Ceramics reported an income of \$3.51 million, EBITDA was \$0.3 million with a margin of 6.4, PAT recorded \$0.07 million. Increased import of steel from China and USA has lead to a lower production causing lower utilization levels at the steel plant. Good part is that we have got few orders from integrated steel plants post the expansion in early 2015. Our Gujarat subsidiary IFGL Exports Limited reported a total income of Rs. 11.3 crores, EBITDA

of Rs. 2.94 crores with a margin of 26%, PAT was Rs. 1.62 crores with a margin of 14.3%, an expansion of 170 bps. Stabilization of our product and better utilization coupled with favorable currency has led to a better performance.

I think I have covered that. I shall now leave the floor for any question-and-answers. Thank you.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Pavan Ahuwalia from Laburnum Capital. Please go ahead.

Pavan Ahuwalia: My question is really around the revenue growth outlook, right. So it is very hard to underwrite what the overall macro steel environment is going to be but it is pretty safe to say that there is a lot of over capacity, the prices are really low and even if Europe and India start imposing ADT it is hard to see rapid bounce backs in production, I mean the Chinese just have so much over capacity and are able to supply it so cheaply that the best you could hope for is really a flat production scenario in the world excluding China for the next five years or so. If we assume that as a macro backdrop, is there any scope for us to achieve revenue growth and within which verticals could you reasonably expect to see revenue growth assuming such a macro backdrop?

Kamal Sarda: Thanks Pavan, I think it was a good analysis you did. Let me tell you, you go back to the history of IFGL 15 years, the dagger of China has always been on our head for the last 15 years, cheap imports from China was always there and we have survived. What we survive on today or what we have grown today on the basis of providing a good quality product at a competitive ultimately gain to the steel industry and we believe this has been our strength and this will be our strength in future year as well, we will continue to provide that better quality product to the steel industry so that they are at a win-win situation and I do not see a major crises because of this Chinese thing happening. Yes, the flattish steel growth overall is a cause of concern temporarily as of today, but if you look at the last 15 years what I have been talking of, Europe has always been flat, US has always been flat and mainly our growth has been in Europe and we see that as an opportunity, any kind of downturn in the steel industry is an opportunity for us because steel industry will look at how they can control their costs and we are there to give them the solution.

Pavan Ahuwalia: Can we expect inorganic growth, are you seeing opportunities? We made a very good acquisition with EI and also a good one with Monocon earlier, are you seeing other opportunities to buy sort of small flow control companies where you may be able to get in at an attractive price because of temporary distress?

Kamal Sarda: That opportunity always lies, I think Mr. Bajoria also mentioned couple of days back that we are on lookout but nothing we can speak as of today.

Pavan Ahuwalia: And final question and I would really appreciate Giorgio's insights on this because he is running the overseas business, in a tough market the big boys and in this case the main big boy

is the Vesuvius, and RHI can act in one of two ways, they can act in a way that says look we are the big boys, we are going to maintain pricing, do whatever you want and risk losing on the margin some market share to folks yourselves who can price more competitively. Or, they can act in a manner that says look we are not going to allow anyone to break in to the industry at this point in time and because of the really extraordinary margins these guys make they have the ability to cut pricing and basically keep competition out. Which of these two strategies do you see Vesuvius in particular taking so far?

Kamal Sarda:

Pavan, see if you look at our growth in growth in the last 15 years, as I have mentioned our major customers are in Europe and which is the stronghold of both Vesuvius and RHI, and Giorgio can always add to it and this particular issue of we are not allowed to enter into any customer, they will drop the price have always been there and we have fought and I think there is an opportunity where the steel plants themselves will they allow us to enter, it is not the big producers will stop us entry. So they know, the steel plant knows that our entry would help them. Giorgio, you can add any further points to it.

Giorgio Cappelli:

Yes, what I can say, also you mentioned by past experience with RHI, we were looking always to IFGL what they are doing and so on. Vesuvius is big, Vesuvius is also in politics to be the number horse in margin, if we see the results of Vesuvius for the first half year they lost turnover but increased margin, so they will never change in my point of view with policy to reduce margin and to increase quantity because Vesuvius has a lot of plants all over the world, so they can shut down one and open the other one and so on. Never mind, Vesuvius was always acting to be local and with acquisitions IFGL has made in USA you can say the only now big producer of isostatic product in USA is EI Ceramics that belongs to our Group. RHI is always looking to be more present and have incredible quantity and capacity in bricks and monoethics, less in isostatic. So they will try to do something but they will never stop us cutting the price also because both are top exchange, they cannot dramatically drop down their margin and the PAT. So I doubt they will try to block us, we are in a good position, we are making good product, we are giving good solution to the customer and the aim is also to try to help the customer to reduce their cost because if the customers survive we survive. And Indo Flogates is always giving this facility to the customers and it is the key to survive.

Moderator:

Thank you. Our next question is from the line of Rupkund Tarachandani from Kotak PMS. Please go ahead.

Rupkund Tarachandani:

Sir, one of the graphite electrode companies in their conference call mentioned that because of the anti-dumping duty was imposed in India on some of the steel products, they are now starting to see an improvement in volumes in the second quarter onwards. So are you also seeing some kind of a pickup in the Indian steel industry?

Kamal Sarda:

See too short-term, let's assume it is a too short-term thing, it is too early to say. India steel industry is not really affected so much by imports rather than more by demands internally. May be they must have seen in some one or two but I think if you look at Indian steel industry,

it is more of a liquidity problem than anything else. Once that is resolved so with a good offtake things should improve, may be the graphite electrode company may have had some good orders but we have never felt short of orders, the problem is liquidity only.

Rupkund Tarachandani: And sir what is the scenario in US because there also a lot of companies have filed the anti-dumping duties, so is there a sentiment change happening there or even there you are not seeing any kind of change right now?

Giorgio Cappelli: So in USA there are several anti-dumping duties against import from China, the main problem is that several of the clients are importing steel from China or from Brazil because shipments can make more margins. In USA it is anti-dumping against several products coming from China refractory products coming from China and there is always a wish to buy American, and we are American entity in USA, we have two companies in USA acting as American company producing in America. So we will see that it will be our interest to produce locally because to import several iso products from China is not so easy and so we are locally so we are lacking this field.

Rupkund Tarachandani: Right. And sir on the margin front, I understand some of the benefit this quarter has been from the FOREX fluctuations, so if currency stays where it is, is this kind of margin sustainable for the rest of the year?

Kamal Sarda: I think yes, the overall demand scenario continues and the FOREX scenario continues like this, so I do not see there is anything majorly which has happened. Barring the foreign exchange translation reserve which fluctuates because, there has been a some bit of fluctuation in March end and June end, so if we take it out I think our operations would be more or less stable. We do not see any problem in our orders.

Rupkund Tarachandani: And sir what is happening in Asia, I mean the ex-India numbers that you report, that is doing good it seems, so is there a particular focus there or some change in strategy there?

Kamal Sarda: No, there is no change.

Moderator: Thank you. The next question is from the line of Ruchi Sharma from RS Limited. Please go ahead.

Ruchi Sharma: Sorry sir if I ask a repetitive question because I joined a little late, sir can you just give me what is the current debt levels on both standalone and on consolidated basis?

Kamal Sarda: Net debt position will be around 42 crores, 44 crores.

Ruchi Sharma: On standalone?

Kamal Sarda: Standalone, there is hardly anything, standalone on IFGL refractory there will be hardly about 2 crores or so.

- Ruchi Sharma:** And sir what is the capacity utilization rate currently?
- Kamal Sarda:** On an average it would be about 65% or maybe about 70%, but then there are various products so each product group will have a different capacity utilization.
- Ruchi Sharma:** And sir can you just share with me about revenue breakup region wise?
- Kamal Sarda:** Can you ask this question to the SGA team, they will pass on to you. It can be done off-line
- Ruchi Sharma:** Okay, sure sir. Sir on US has the situation been improved in US?
- Kamal Sarda:** It is, it has improved in July I must say that, the first quarter has not been very-very good but what I see our performance is which has come so far, the July has been a better month, I hope we see good days there again.
- Ruchi Sharma:** Sir any plans on new acquisition?
- Kamal Sarda:** I think you missed it, but nothing as of now which I can speak of.
- Ruchi Sharma:** And what is the ROC target for international business?
- Kamal Sarda:** It is there in the presentation if you look at it, please. Have you gone through the presentation?
- Ruchi Sharma:** Yes.
- Kamal Sarda:** So I think it is there in that presentation the ROC.
- Moderator:** Thank you. The next question is from the line of Abhisar Jain from Centrum Broking. Please go ahead.
- Abhisar Jain:** Sir my question is related to first of all on the overseas operations, so Monocon as well as EI Ceramics wherein obviously the previous few quarters have been tough even in their domestic currencies that you have started reporting. So is there any mitigating factors in terms of either the raw material cost pressure coming down which can help us in the margin improvement or say more market share gains, we were planning to enter few new markets through EI Ceramics once our expansions were through. So is there any progress on that sir which can help us do better in the coming quarters?
- Kamal Sarda:** It is a continuous process Abhisar, I think this process on a cost rationalization alternate raw material, recycle of raw material, getting into new market and a churning the product portfolio by having higher margin product and then... So all those are a continuous process and I am sure our target is to maintain margins, so despite the sluggish industry, the volatile currency, the raw material rates are not changing, it has been a good thing that raw material rates are

quite stable. I think all those are continuing barring CIS still there is some issue, some problems there, but otherwise I think our efforts what we mentioned earlier are continuing.

Abhisar Jain: But sir in the consolidated overall operations, when we will look at the gross margin performance which is obviously returned to the overall long-term averages whereas in Q4 the gross margins were significantly under pressure. So those improvements some of them have been contributed by the input cost and the raw material coming out or not?

Kamal Sarda: See, it is a mix of two three factors, one overall product portfolio, selling of different products, it can be different in the two quarters. Second is the overall revenue growth which is there, maybe FOREX realization is slightly better. Third is the use of different raw material what we mentioned, that has also contributed to a lower or rather higher gross margin.

Abhisar Jain: Sir the different raw material you mean to say some bit of recycled material and all, right?

Kamal Sarda: Raw material which is like alternate suppliers, alternate raw material, so that process which we started about 1.5, 2 years back we will be continuing with that, maybe putting more and more thrust.

Abhisar Jain: And sir just going forward from this quarter because you know the underlying steel industry has been facing severe realization pressures, so on the backdrop of that based on the realizations that we get, is there a pressure which might return on the gross margins, in the raw material remaining same or is it like the gross margins can more or so be maintained and a couple of subsidiaries overseas wherein we will see some improvement like in EI Ceramics and all we can improve the gross margins further?

Kamal Sarda: See we can expect or we expect the improvement in EI Ceramic business which will improve the overall gross margin because the gross margin there is higher. Raw material pressure, we do not see anything, I do not see any raw material pressure on us.

Abhisar Jain: So sir just your comment on the overall gross margin picture basically then on the consol basis, is there a realization pressure which can then impact the gross margins or is it going to be...?

Kamal Sarda: Abhisar, realization pressure can affect the business not the gross margin as such, realization pressure - you may do a business and then your working capital is blocked or you are running a risk of not getting that money. So we may rather chose not to do that business which will obviously keep our margins intact. There is a liquidity issue which I mentioned at the very beginning, but I am sure with the sort of a restructuring exercise which is going on and permitted by Reserve Bank or the banks, things should improve from here.

Abhisar Jain: And sir there are as such no changes in the power cost right, in any of the operations or is there any jump in the power cost anywhere?

- Kamal Sarda:** No, there is no change in power cost, in fact the fuel cost is coming down as we have seen the petroleum prices going down which is in fact good for us.
- Abhisar Jain:** And sir just last question on the IFGL export subsidiary Kandla wherein we did have some margin fluctuations last year and obviously the currency was also all over the place, now with the way the current currency is in terms of the Euro-INR adjust and export subsidiary and also our product, what should we expect the growth path from the Kandla operations be for the next three years considering the expansions that we have planned there?
- Kamal Sarda:** I think we should look at good days ahead for the Gujarat operations only, I can say that. Here we are going ahead with the expansion plan and our efforts would be to complete the expansion by March 2016 if it is possible. So next year we will see some impact of the expansion completion there. And as we have mentioned in our presentations also that Phase II expansion is also there in place once the Phase I is complete and stabilized. So I think for Gujarat plant it should be good future.
- Abhisar Jain:** Sir just wanted to have a ballpark indication on doubling of the capacity which would be complete this year now, then we should be in a position to almost double our revenues based on the market share whenever we are able to get it in the next two to three years, is that assumption right?
- Kamal Sarda:** Yes, right.
- Abhisar Jain:** So we should be then moving towards the 100 crores target there, right sir on top-line?
- Kamal Sarda:** Yes.
- Moderator:** Thank you. The next question is from the line of Prabhat Anantraman from HDFC Securities. Please go ahead.
- Prabhat Anantraman:** Hi sir, I believe you answered my question on the CAPEX front, sir I just wanted to get a quick take on, so we have a facility in China right?
- Kamal Sarda:** Yes.
- Prabhat Anantraman:** So I just wanted to get a take on, can we supply to the steel companies over there, can we increase our refractory business in China?
- Giorgio Cappelli:** In China all refractory company that are dealing in China and supplying in China, they have a major problem of liquidity because they are not getting from the steel plant any margin, getting only bank draft and when you are going to discount in bank draft which goes 5% to 10% and the payment term is roughly close to one year. So we are making some business in China only when we are getting money because to get paper without any money is a problem for us. So sure we can make something only if we are getting liquid money, not if you are getting bank

draft. In any case the price level in China are so bad and the liquidity is so bad that a lot of people are trying to export to avoid to stay in China. So we do not believe that China will be a big market for us, we will get our business when it is possible get money, if we are not possible to get money we will avoid to make our business because with a payment term of one year does not make any sense or to get a discount with draft bank. So we are looking to produce in China, to export for China to make good product but it is not our aim to grow our market share in China.

Prabhat Anantraman: Sir you mentioned capacity utilization rate in this quarter was 67%, 70% roughly on an average, what was the same thing sir last year same quarter?

Kamal Sarda: We would be almost similar levels.

Prabhat Anantraman: So we have not seen any increase in...

Kamal Sarda: Not major growth, yes.

Prabhat Anantraman: And sir my just final question on, so sir I have been hearing this from people at Vesuvius also and a couple of other people, so is it true that flat products consume three times more refractory material than long products?

Giorgio Cappelli: The problem is which kind of production you are making, if you are looking from the blast furnace, the blast furnace consumption starting from coke oven and go to continuous casting in the blast furnace and integrated plant is more than in electricity plant, normally electricity plans are used to making more built it in blooms and not flat products. For this reason you have, if you consider all the total refractory have more consumption in the integrated plant is relatively short but due to because relatively short, are normally not a huge capacity so they are making more long products and flat products.

Moderator: Thank you. Our next question is a follow-up question from the line of Pavan Ahuwalia from Laburnum Capital. Please go ahead.

Pavan Ahuwalia: Two questions really, one is more of an accounting question, we own 51% of the export unit and I am assuming the PAT numbers etc that you are showing us are adjusted for minority interest, is that correct?

Kamal Sarda: I think I need to cross check but it should be after the minority interest.

Pavan Ahuwalia: And then the second question is, as I look at the map of the world where all you are present, would it be fair to assume I mean have you done this analysis of the plants you are supplying to and where they sit on the global cost curve and if you have done this analysis, if you give us some sense of what percentage of your sale is to the highest cost quartile?

- Kamal Sarda:** I think Pavan we can sit down separately and understand this question to really give you an answer. I do not have the answer as of now.
- Pavan Ahuwalia:** I think it be a great for the company to do and obviously helpful for everyone.
- Kamal Sarda:** Yes, because I think this is an answer which I need to pass it on to my marketing team to understand.
- Moderator:** Thank you. The next question is follow-up question from the line of Rupkund Tarachandani from Kotak PMS. Please go ahead.
- Rupkund Tarachandani:** Sir on the EI Ceramics in USA, you recently expanded your capacity, so considering the demand scenario do you think in hindsight it would have been better to defer the capacity expansion and it would be difficult to get the demand there?
- Kamal Sarda:** The expansion was almost completed before this so called slowdown had started, so I do not think there is any scope of deferment right now. But as I mentioned it is a very temporary thing and I am sure all the matured economies would take their steps to protect their economies. We do not see this as any kind of a long-term threat of a slowdown, overall the US economy is going good, you must be seeing the numbers there. So I think it is purely temporary.
- Rupkund Tarachandani:** And sir from EI Ceramics do you also supply to the Latin America countries like Brazil and others?
- Kamal Sarda:** No, not yet, no.
- Giorgio Cappelli:** It is tough to say to go from, first of all you have a problem with exchange rate against the dollar. Second, you have an overcapacity already in Brazil because there are I think two companies, Magnezit and Vesuvius and they have overcapacity. And also the main problem to go from USA to Brazil is a question of logistic, the transport cost is incredibly high. So does not make any sense to go to Brazil, you have other close to USA is producing a lot of steel like Canada, Mexico, Argentina but never mind to the increase of capacity of 80 now we are able to go to integrated steel shop where there really big piece and we can really try to fulfill our capacity and we already make the first step in this....
- Moderator:** Thank you. As there are no further questions I would now like to hand the floor over the management for closing comments.
- Kamal Sarda:** Thank you. I hope I have been able to answer most of your queries and we look forward to your participation in the next quarter. For any queries you may contact our investment advisors, strategic growth advisors. Thank you very much, have a nice day.
- Moderator:** Ladies and Gentlemen, on behalf of IFGL Refractories that concludes this conference. Thank you for joining us and you may now disconnect your lines.