



## “IFGL Refractories Limited Q1 FY- 17 Earnings Conference Call”

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**MANAGEMENT: MR. KAMAL SARDA- CEO -IFGL**  
**MR. GIORGIO CAPPELLI- DIRECTOR -MONOCON**  
**GROUP & HEAD OVERSEAS**  
**MR. RAJESH AGARWAL- COMPANY SECRETARY, IFGL**

**Moderator:** Welcome to IFGL Refractories Limited Q1 FY17 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 the date of this call. These statements are not the guarantee 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 ‘\*’ and 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:** Thank you and good afternoon to everyone. On behalf of IFGL Refractories I warmly welcome you all to the Earnings Call of Quarter 1 FY 17 financial results of our company. I have with me today Mr. Giorgio Cappelli – Director Monocon Group and Head Overseas, Mr. Rajesh Agarwal – our Company Secretary and SGA-our Investor Relation Advisors. I hope all of you have received the investor presentation and have had a chance to go through it.

Just a quick industry update; world steel capacity utilization is at 10 month high of 71.5% as per World Steel Association. This suggests steel demand to be relatively stable benefiting refractories industry. To counter cheap imports many countries have adopted safeguard measures to protect their domestic steel industry. US, Mexico, Brazil, EU, Vietnam and India are few countries which have imposed such measures. Due to these steps we expect increase in steel production in home countries which shall be positive for steel industry and in turn benefit the refractories industry.

Indian economy continues to exhibit resilience amidst challenging world economic environment. On the back of reform momentum and safeguard measures, steel demand in India is expected to grow by 5.4% to 83.8 million metric ton in 2017 as per WSA figure. Increased focus of government on industries such as railways and roads will keep the infrastructure creation demand on uptick leading to outperformance of Indian steel sector.

For the quarter ended 30<sup>th</sup> June, 2016 IFGL reported consolidated total income of 182 crores, EBITDA stood at 21.5 crores while PAT was at 11.5 crores, consolidated earnings per share was recorded at 2.89 per share.

Now I shall discuss the individual performance of each of the group companies; Monocon Group, our UK subsidiary reported income of 5.47 GBP million in the Quarter 1. Benign macro economic conditions in UK and Europe resulted in low off-take. We're focusing and developing new products to gain a better foothold in the region.

Hofmann, our German subsidiary reported a total income of €2.59 million, EBITDA was €0.27 million with margin of 10.6%, PAT was €0.17 million with margin of 6.4%.

EI Ceramics, our US subsidiary is a traditionally high margin business. You will recollect that we discussed about a positive impact of antidumping duty imposed in US, we have begun to witness that in our operations there. Company reported a turnover of \$4.74 million, EBITDA was \$0.78 million with a margin of 16.5%, PAT was \$0.47 million.

IFGL Exports, our Gujarat subsidiary focused on export market and operating from Kandla special economic zone reported a total income of Rs. 16.02 crores. EBITDA was at Rs. 4.16 crores with margin of 26% while PAT was Rs. 3.07 crores with margin of 19%. We have achieved very high level of utilization in this plant. We have almost completed phase II expansion now as we speak which will give us the capacities for future.

Indian business performance on a standalone basis - standalone turnover was Rs. 73.25 crores, EBITDA was Rs. 9.26croreswith margin of 12.6%, PAT was Rs. 4.53 crores. We continue to witness better domestic environment for our range of products Increased infrastructure activities in India will keep the steel sector buoyant and that's coupled with relatively strong relationship with the integrated still mills, we are confident of better performance.

There is a corporate action which I would like to discuss here, details of which have already been shared with you. The board of directors of the company have approved merger of the company with its Indian subsidiary IFGL Exports on and from 1<sup>st</sup> April, 2016 subject to necessary approvals and permissions including sanctions of the scheme amalgamation by the jurisdictional high courts. Share swap ratio approved is 1:1 that is 1 share of Rs.10 each of the subsidiary company credited as fully paid up for one equity share of IFGL Refractories held. Major advantages of the proposed merger are, greater financial strength and flexibility of the amalgamated entity which would result in maximizing overall shareholders value, improving the economic and the competitive position of the combined entity, better and efficient management control and running of the businesses to attain operational efficiencies, cost competitiveness, create synergies and capitalize on the growth opportunities to the fullest extent, simplified corporate structure, better financial, business and operational prospectsincluding but not limited to, efficient management of costs, improved administrative control of the amalgamated company. Greater efficiency in cash management of the amalgamated entity and pooling of cash flow generated by the combined business which can be deployed more efficiently to fund both organic and inorganic growth opportunities to maximize the shareholders value.

Merger shall be in the beneficial interest of the shareholders and creditor of both the companies. Merger shall not be in any manner prejudicial to the interest of the concerned members, creditors, employees thereof or general public at large. Post merger the equity base of the combined entity would be 3.6 crores equity shares of Rs.10 each, the promoter and the promoter group holding as it stands now would be very similar, to 72.43% and the rest would be public. Main advisor of this transaction is KPMG, Valuation is done by Walker Chandiok, a part of Grant Thornton and the fairness opinion advisor is Saffron Capital Advisors Private Limited.

I now leave the floor for any question and answers by the members. Thank you.

- Moderator:** Thank you. We will now begin with the question and answer session. We take the first question from the line of Dixit Doshi from Whitestone Finance. Please go ahead.
- Dixit Doshi:** On the IFGL Export capacity expansion. I guess we were doubling the capacity from 85,000 to 1,60,000, right?
- Kamal Sarda:** Yes.
- Dixit Doshi:** So at 1,60,000 we can do approx. 100 crores of sales.
- Kamal Sarda:** Yes we can expect that.
- Dixit Doshi:** Just wanted to understand that what is the rationale behind merging the IFGL Refractories with the IFGL Export and not IFGL Export is merged with the listed company.
- Kamal Sarda:** That was based on the advice and IFGL Export is a new company and it had a initial tax loss carry it forward. So one of the reasons was we merged there into that. We checked both the valuations and we found that is the most tax efficient merger. For us it doesn't make a difference as long as the overall valuation goes up.
- Dixit Doshi:** Whenever this will be effective so will there be any time gap between the listing of IFGL Export or...
- Kamal Sarda:** I don't know exactly but I think it should happen almost simultaneously. These shares will get delisted and the shares which are issued in IFGL Exports will get listed.
- Moderator:** Thank you. We take the next question from the line of Kamal Sahu from India Nivesh. Please go ahead.
- Kamal Sahu:** My question is about the performance outlook. It is very difficult to ensure what is the overall utilization of steel industry going ahead but undoubtedly there is an overcapacity in global inventory level. But remarkably in IFGL we had experienced a good set of numbers in IFGL Exports and EI Ceramics. However, in European operations basically in Monocon and Hofmann, the revenue contracted by 11% to 12% but if you look at this domestic market in India this recent impositions of various safe guard duties and MIP, we are experienced a bounce back in this production for this quarter in various steel industry and small and mid sized steel industry, even in other peer refractories have come-up with good set of numbers like Orient and Vesuvius, they have quite good number. However, if I look at our company IFGL standalone contracted by 70 million. So what were the major constraints behind that?
- Kamal Sarda:** IFGL on a standalone basis is not comparable with Vesuvius and Orient because Vesuvius and Orient if you look are almost 85% to 90% domestic business. Whereas IFGL on the standalone

basis also is 50% exports and 50% domestic plus in the domestic segment also I think I mentioned in my previous calls Vesuvius is into very high end segment and they are very large company, technically much more advanced. They have products which are virtually like new introduction into the market so they come under a higher price and higher margins. Orient on the other hand virtually have a very high market share in the mini-mill segment which is also has got the effect of these MIPs which have been imposed now so this mini-mill segment production is also gone up where IFGL's presence is very limited. IFGL is present in mostly in integrated steel mills which has had a stable performance in the last 2-3-4 quarters.

**Kamal Sahu:** This MIP is affecting directly to the long products and so far, I know long products requires three time more refractories than other...

**Kamal Sarda:** I don't know exactly. I'm not technically competent enough but I don't think that's the kind of difference between the long and flat products. I don't think it's 3x difference is there.

**Giorgio Cappelli:** The consumption of long refractory normally is less than the flat because flat is normally made by integrated plants. Integrated plant where we use blast furnace and so use more refractory where long products made by electric arc furnace where the consumption of refractory is less.

**Kamal Sahu:** In UK the Brexit declared on 23<sup>rd</sup> June so for this quarter ended on 30<sup>th</sup> June so I don't think the Brexit impacted so much upon the performance so how do you foresee the Quarter 2 results after Brexit.

**Giorgio Cappelli:** Brexit is today on the paper, the only threat that we see on Brexit is exchange rate between Pound, Euro and Dollar. At this moment the exchange rates they will help us because pound is quite weak means that we are able to increase our market share in UK due to high value of Euro and pound and at the moment we don't see any real affect except for this effect of the exchange rate. So to speak about practically I have to wait one year, two year to see. What we can say is steel production in UK is still not so fixed. We are seeing a big discussion between Tata Steel and Thyssenkrupp and JV and so and so. There are lot of movement in Europe but we just have to wait, at the moment the only thing that we see is exchange rate is advantage for us at this moment.

**Kamal Sahu:** So overall the European market is sluggish, right?

**Giorgio Cappelli:** The European market at the moment if you see and compare the European market roughly it was 28 is 6.1% less than last year. We see that there is now a discussion to apply anti-dumping also in Europe and Russia so the market at the moment is little bit stable. We see only this, it's very tough to sale no doubt about that. We are not so afraid this year for Western Market and Europe in fact if we see stable market compare to the last quarter 2015 with the quarter on quarter 2015 we have a little bit of growth 1.1%. We see also that there is big producer in fact now we are trying to increase the capacity. It's a tough market but it's not without any so big type of cloud in the sky so we have a holistic future in this year.

- Moderator:** Thank you. We take the next question from the line of RukunTarachandani from Kotak Is it Management. Please go ahead.
- RukunTarachandani:** What was the loss on account of exchange rate in this quarter?
- Kamal Sarda:** I don't have the full figures but loss on the exchange due to foreign exchange translation, was about 2.1 or 2.2 crores.
- RukunTarachandani:** Even if we adjust for that loss if you compare the results versus the last year this still seems subdued inspite of the fact that you had the US steel industry doing a bit better and you had India doing a bit better. So inspite of all that your profitability would have come down from 15 crores to 12.5-13 crores adjusted for that loss, so where is the disconnect?
- Kamal Sarda:** There are the 2-3 issues, one of the major factors if you compare with the Quarter 1 of last year and Quarter 1 of this year, at the PAT level if we remove the foreign exchange translation reserve, the PAT is almost similar. The last quarter, last year the Quarter 1 we had a foreign exchange FETR which we call it as a short form, there was a positive gain of about 3.2-3.3 crores and this year is a loss. So this is about 5.4 crores swing, if we have removed these two from these two quarters as despite the turnover slightly lower the PAT was almost similar if not better. The other one as you must have seen the presentation, Monocon group in the Quarter 1 was slightly lower. In the Quarter 2 we expect and Giorgio can comment on this, we expect it to be better so we hope that Quarter 2 and with this pound to rupee levels are getting more and more into a stable situation unless and until it falls or improves the FETR should be in Quarter 2 would be better. We had this FETR last year also, March '15 the figures and June '15 figures were quite different and the same has happened in this quarter also. So definitely Quarter 2 to be much more stable.
- RukunTarachandani:** If the exchange rates stay where they are you expect the FETR to be probably break even, there won't be any loss on account of that going forward.
- Kamal Sarda:** Yeah I hope.
- RukunTarachandani:** In terms of what you have seen in 2Q so far can you comment on the demand scenario across the regions in India and US and in Europe as well?
- Kamal Sarda:** The demand is much more stable. I would say India is what compared to the Quarter 3 of last year or even Quarter 4 of last year it is slightly better. As I mentioned the EI Ceramics in the US market is also getting much more stable if not better. So okay one of the other things was Europe I think Giorgio can add.
- Giorgio Cappelli:** Regarding Monocon group, Monocon is a company makes refractories as a standard business and engineering is not standard because it is case-by-case. In reality we had some delay in delivery of our big machine that we will deliver in the second quarter. If you see result of the

first quarter compared to last year is not so exciting, also due to effect don't forget that the last year was also the major problem in UK where one of our clients shutdown and this was one of our biggest customers. So we see good future for the second quarter, third quarter due to engineering division of our groups. Same in USA now we are delivering some machine in USA and certainly that will increase not only in engineering but also in the refractory associated to this machine. The main problem for us was major delay in delivery due to the lack of payment from one customer.

**Moderator:** Thank you. We take the next question from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

**Raj Gandhi:** As you highlighted from your standalone it's difficult to make out the trend how it has been for you, so possibly could you highlight how has been the trend for you in the domestic market over last two quarters?

**Kamal Sarda:** Domestic market there are two segments I mentioned to you, we are mainly operating in the integrated mills. Major part of our business is in those segments and those have been doing well even in the last quarter also barring the Quarter 3 of the last financial year which was quite bad for these people also when there was no safeguards there and lot of dumping was there. The last two quarters after the MIP has come in, striking the MIP came in sometimes January or something?

**Raj Gandhi:** Right.

**Kamal Sarda:** So we have been quite stable, so for us the domestic market has not grown so much. One of the major reason why we are not being aggressive to the domestic market is still there is an issue of liquidity. So we have been very-very I would say cautious when we sell that we at least get our money back on time. We don't want to take any kind of risk on outstandings with the various steel plants where we feel there could be potentially abnormal delay. We have been very cautious in that. So we have not been very aggressive to that extent. I don't know whether you have that information, Steel Authorities also passing through a severe liquidity issues. They have now really started their barter trade which was there about 15-16-17 years back. So they want us to take steel instead of money, so there is an issue. Until unless you have certain very high end product where the customer has to take it from you the payment position in customer is still dicey. We want to watch that space before we want to go and aggressive in the Indian market.

**Raj Gandhi:** In India is there a very big share for unorganized refractory guys where if you don't agree for a barter trade, IFGL does not agree they can fall back upon somebody else?

**Kamal Sarda:** Even in the organized segment there is a competition. So it is not that if we don't take there is no one else who is going to supply. In this space the type of refractory we are into, the unorganized refractory makers are not there. They have to move around within this about 7-8

players in the organized sector so that's the scenario. But the major benefit of this MIP and all apart from whatever the large steel mills but the smaller the steel mills have gone into higher and higher productivity. So the smaller steel mills have shown because they can quickly switch on and switch off.

- Raj Gandhi:** Is it possible to highlight which are the top 2-3 clients for you in domestic market?
- Kamal Sarda:** Steel Authority of India and again you have Jindal Raigarh, we have Usha Martin, we have Adhunik, Tata Steel is also one of our larger customers.
- Raj Gandhi:** Jindal Raigarh you mentioned, Usha Martin.
- Kamal Sarda:** Adhunik Steel and Tata Steel.
- Moderator:** Thank you. We take the next question from the line of SumangalNevatia from Macquarie Group. Please go ahead.
- SumangalNevatia:** Thinking slightly from a longer-term perspective if we look at Kandla SEZ after we ramp up the current capacity what is the future expansion potential and what are our plans there?
- Kamal Sarda:** We have been mentioning in our previous calls that this is the expansion which is almost completed, maybe some of the debottlenecking which is due in the next couple of months also. Then there is another level of expansion which is there which would be either next year or end of next year or early 2018-19 which will come up. With that expansion we will triple the capacity, now we have doubled the capacity as of today. So there is a potential we triple the capacity in 2018-19.
- SumangalNevatia:** How much CAPEX will we spend?
- Kamal Sarda:** This year we will be spending about 6 crores or something like that. But for the next expansion it could be about anywhere between 8-10 crores or so, not much. These are just debottlenecking things.
- Moderator:** Thank you. We take the next question from the line of BhalchandraShinde from AnandRathi. Please go ahead.
- BhalchandraShinde:** About the capacity would like to know, in few articles I have heard that overall in our Indian market there is overall oversupply means over capacity with the players. So how we are place for Indian demand like if we see good revival on the domestic market, do we have a sufficient capacity because this to cater that demand?
- Kamal Sarda:** First of all let me first thank you for coming up with that beautiful report.
- BhalchandraShinde:** Thank you.



- Kamal Sarda:** I am in fact in the process of going through it. I just got it through SGA. I see that you have covered quite a good things there. Now as far as IFGL is concerned as we know this Kandla plant is in special economic zone so the idea behind putting up the Kandla plant was, one was growth, second one was catering all the exports from Kandla and freeing the other plant which in Rourkela which is in Orissa for the domestic demands which will come in. So as and when the demand improves for us switching from one plant to other will not be a problem. This is one of the reasons why we are one of the major benefits which we will get when we merge these two companies. The order will be on one company not that we have to change from one to other. So this will be a basically advantage and get synergy benefits also take the group benefit of that two productions facilities. So for us one of the major constraints was ISO products where we have added capacity, for register the other products we have enough capacities there.
- BhalchandraShinde:** In our other entities how we are placed, obviously in Europe we have seen the sluggish demand. But is it feasible to transport from European entities to other countries or we can't do that actually?
- Kamal Sarda:** All the other entities make different-different type of products. It's not that from India where we are making the same thing what we make in UK, UK makes a different type of product. Only IFGL and EI Ceramics have a common set of products. But EI Ceramics caters to the US market and India caters to rest of the markets. But some of the specialized products, we are majorly giving in to specialized products. So these specialized products can be transported anywhere where in the transporting cost could be 5% to 7% or 8% of the sales value. It is the less if it is commodity then the transporting cost could be about 15% to 20% of the sales value, where it is not good. But I think 5% to 7% cost its possible.
- BhalchandraShinde:** On consol level how you look about the sales grow then margins like overall margins how you see, will it improve or we see slight pressure because of our European entities and UK entity?
- Kamal Sarda:** Let me first tell you we don't give any forward looking statements. But definitely as a company we would like to grow. We see a positive side all across even in parts of Europe we see higher off-take now in things there. But let's watch for another 3-4 months to see whether these are all like the sign of sustained growth or it's like temporary growth. So I think let's watch for 3-4 months. But obviously growth is always a target for us. Any company would like to have at least 10% growth, we also have it. But then we are on a conservative side so we look at whether everything is okay or not.
- Moderator:** Thank you. We take the next question from the line of Abhisar Jain from Centrum Broking. Please go ahead.
- Abhisar Jain:** In Monocon we had suffered a lossof revenue last year because of the closure of one of our customer plants. Whatever level we have been now in FY16 is around 28 million pounds that we have done in Monocon as a revenue. Do we expect to do slightly better in FY17 given the

demand situation given the production is still falling in Europe as a whole so that was my question there? Have we seen any more loss of customer there other than that closure that we had last year?

**Giorgio Cappelli:**

Answer to the last part of your question, we don't see at the moment we don't lose any other customer. We are seeing a good year for engineering part of our group so where we deliver big machine for the steel industry. We can see a stable performance and we are sure of not losing market share and we are end of this fiscal year would be a positive year for us. In the engineering we are pushing a lot. There we see some activity in USA for MCI, which is part of our group. China part of our group is doing well. We have some new product on the pipeline. We are going to make some trials. We are working hard to really a positive future in our Monocon group.

**Abhisar Jain:**

As mentioned that there was some shifting of shipment from Q1 to Q2 so obviously Q1 has been pretty low but that we should be able to make up in the coming quarters just reconfirm.

**Giorgio Cappelli:**

Correct. For us we cannot budget due to engineering part of our business, our budget divide by 12 so in our internal discussion we do not publish it, we are better than what we have budgeted.

**Abhisar Jain:**

The other question is on the strategy part. I was just looking at your cash flow generation it has been pretty strong in FY16, also going forward in the next couple of years we do expect the cash flow generation to improve particularly now with IFGL Kandla also integrated completely into our operation. Is there any strategic plan for the deployment of this cash or your payout to the shareholders increasing till the time we find any inorganic opportunity? Can you just please throw some light on this?

**Kamal Sarda:**

Payout we have had the dividend which was paid in March just all of you to know. Payout is what we do is maximum which is permitted by the—not maximum I would say—whatever we have maintained that. The available cash within the system yes, it is there. Just to see that if we get an opportunity of any kind of organic or inorganic growth opportunity that is where it is kept. As of now I don't have anything specific to share officially...

**Abhisar Jain:**

I was just coming from the point that we will turn net cash mostly this year. We do have some cash on balance sheet and some debt which is drawing down and since cash flow from operations is pretty strong upwards of 80 crores odd we have been doing in FY16 also and going forward also it should be close to or similar to those numbers. Anything on the deployment per se till the time any inorganic comes up?

**Kamal Sarda:**

We keep this money in either fixed deposits or some bit of money in mutual funds just like fixed income funds. That's where we keep the temporary deployments.

- Moderator:** Thank you. We take the next question from the line of Manish Parekh from Vibrant Securities. Please go ahead.
- Manish Parekh:** May I know our revenue spend in terms of when you say specialized products and commodity products or something of that split?
- Kamal Sarda:** Most of it is specialized product for us, most of it is tailor-made for each customer.
- Manish Parekh:** I have been reading that the average life of the refractories has been increasing to the technological improvement over the years, so is it true the replacement cycle has elongated?
- Kamal Sarda:** It is true the average what we call the specific consumption has refracted per ton of steel produced is coming down year-on-year. But that does not stop from the refractory industry's growth because with the growth in the refractories quality your net realization goes up.
- Manish Parekh:** So the volume is compensated by realization.
- Moderator:** Thank you. We take the next question from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.
- Raj Gandhi:** You mentioned there are about 6-7 suppliers in the category that you are present, could you just possibly name which all would be....?
- Kamal Sarda:** Two of them are in this call itself. We've spoken of the Vesuvius and Orient Refractory. You have OCL, Orissa Cement, their refractory division; we have Tata Refractories to some extent. There are 2 or 3 other medium-range players who are there.
- Raj Gandhi:** Just in the segments where you are present what would be the market share of these four players which make the tail-end versus the top-three, how would other trend be?
- Kamal Sarda:** These four players which I named Vesuvius, ORL, OCL and IFGL These four put together would be contributing close to 80%.
- Moderator:** Thank you. That was the last question. I now hand the conference over to Mr. Kamal Sarda for his closing comments.
- Kamal Sarda:** Thank you everyone. I think it was a wonderful session. I hope I have been able to answer most of your queries. We look forward to your participation in the next quarter. For any queries you may contact our investor relation advisors that's Strategy Growth Advisors. Thank you and all the best.
- Moderator:** Thank you. Ladies and Gentleman, on behalf of IFGL Refractories, that concludes this conference. Thank you for joining us and you may now disconnect your lines.