



**“IFGL Refractories Limited
(Formerly IFGL Exports Limited)
Q1 FY2019 Earnings Conference Call”**

August 17, 2018



MANAGEMENT:

**MR. KAMAL SARDA – CHIEF EXECUTIVE OFFICER –
IFGL EXPORTS LIMITED
MR. RAJESH AGARWAL – COMPANY SECRETARY -
IFGL EXPORTS LIMITED**

Moderator: Ladies and gentlemen good day and welcome to IFGL Refractories Limited Q1FY2019 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 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 phone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Kamal Sarda, CEO. Thank you and over to you Sir!

Kamal Sarda: Good afternoon everyone. On behalf of IFGL Refractories Limited formerly IFGL Exports Limited, I warmly welcome you all to our Q1 FY2019 earnings conference call. I have with me today, Mr. Rajesh Agarwal, our Company Secretary and SGA, our Investor Relations Advisors. I hope you have had a chance to go through the investor presentation hosted on the website of the Company and also of the Stock Exchanges.

Let me give you a small update on the steel industry in which we serve. As per the World Steel Association’s latest report, the global crude steel production in the first half rose by 4.6% on YoY basis reaching 881 million metric tonnes. India produced 52.8 million metric tonnes, which is an increase of 5.1% on YoY basis.

India is almost close to dethroning Japan and becoming the second largest producer after China. China produced about 451 million tonnes, an increase of 6% YoY. European Union produced about 87 million tonne of crude steel in the first half of 2018 up by 1.6%. UK also grew by 11.6%. Germany grew by 4.6%. Other countries in the EU, Italy and Spain also had showed a positive growth.

Post the tariff rate quota imposed by European Commission recently the production in this geography is expected to increase further. Crude steel production in the US was 6.8 million metric tonnes witnessing a 0.8% increase over the first half of the last year where as North America produced 59 million metric tonne in the first six months of 2018 a growth of 2.14% YoY.

According to WSA, the demand in developing economies is expected to rise by 4.9% and 4.5% in 2018 and 2019 respectively. All the geographies in which IFGL has presence have shown good growth in production as I have mentioned above. This is also reflected in our current quarter’s performance. With this trend expected to continue, we are also optimistic about continuing our good performance in the coming quarters as well.

Let me give you a brief on the domestic update. The total installed capacity in India is expected to rise to 150 million metric tonnes per annum by FY2021, as per a recent report issued by ICRA,

and the utilization rate is expected to reach 82% over the same period. Further India's share in global steel production is expected to go up from 6% to 7% by FY2020 as per the BOFA Merrill Lynch Report. Thus, with the increasing global production and favorable domestic market conditions, the demand of refractories is expected to remain high, which will benefit refractory players like IFGL also.

Let me give you a brief on our financial performance for Q1.

On the consolidated level for the quarter, our total income stood at Rs.239 Crores up by 20.5%. EBITDA was Rs.32 Crores as against Rs.25 Crores. EBITDA margin for the quarter was 13.3 compared to 12.8 for the same quarter last year.

Goodwill write-off for the quarter was Rs.6.7 Crores. PAT was Rs.16 Crores in Q1FY2019 whereas it was Rs.11 Crores in Q1FY2018, which is 37.7% growth on YoY. Cash profit was Rs.29 Crores in Q1 as against Rs.21 Crores in the previous year's quarter, which is a growth of 41% on YoY.

On a standalone basis, the total income was Rs.122 Crores up from Rs.103 Crores in comparative quarter in FY2018 a growth of about 19%. EBITDA during the quarter was Rs.20 Crores as against Rs.17 Crores in FY2018 Q1, which is up by 17.4%, which is a margin of 16.3% in Q1 FY2019. Goodwill again was written off at Rs.6.7 Crores during this quarter. Standalone PAT for the quarter was Rs.7 Crores versus Rs.6 Crores in FY2018, a growth of 21.4%. PAT margin was 6.1% compared to 6% in the previous year's quarter. Cash profit was Rs.19 Crores in this quarter compared to Rs.16 Crores in the previous year's quarter, which is a growth of 20.1%.

Coming to our international operations, **EI Ceramics of US**, the total income for this current quarter was \$4.8 million with an EBITDA of \$0.8 million a margin of 16.7% while PAT was \$0.6 million with a margin of 12%.

Monocon Group, our UK subsidiary for Q1, the total income was GBP 7.6 million, with a growth of 23.8% YoY. EBITDA was GBP 0.7 million with a margin improving to 9.2% compared to 7% in the previous year's quarter. PAT was GBP 0.5 million with a PAT margin of 6.6% improving from 4.8% on YoY.

Hofmann Ceramic, our German business reported a total income of €2.7 million, EBITDA €0.1 million with a margin of 3.5%. It is worth mentioning that Hofmann had reported a loss in the previous year's quarter and this year it has turned around and posted a positive PAT.

This is about our financial performance. I now am open to questions and answers. Thank you.

Moderator:

Thank you very much. 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. The first question is from the line of Ankit Agarwal from Arc Capital. Please go ahead.

- Ankit Agarwal:** Thanks for the opportunity. I have a couple of questions. Sir what is the capex guidance for this financial year and which geographies do we do see this investment?
- Kamal Sarda:** I will give the capex guidance in next quarter's conference call. On the capex, mentioned last year, we have given an update in the presentation, which you must have seen Any further capex guidance I will give you in the next quarter presentation.
- Ankit Agarwal:** In this quarter's revenue growth how much contribution is from value and how much is from volume, what is the bifurcation?
- Kamal Sarda:** Honestly, we do not look at that. We look at absolute figures. There is definitely a volume growth across our plants in India as well as the UK plant as well as the US plant, so the volumes have grown, but by how much it is difficult to determine because there are various product mixes, domestic, exports, so that way things are quite different, so we honestly do not do that bifurcation.
- Ankit Agarwal:** Fine. Thank you Sir. That is all from me.
- Moderator:** Thank you. The next question is from the line of Priyanka Singh from RB Securities. Please go ahead. Priyanka Singh your line is unmuted please go ahead with your question.
- Priyanka Singh:** Sir what would be the capacity utilization in Q1?
- Kamal Sarda:** It was different in various geographies. I would say in India, the average utilizations were about 70% to 75%, both plants combined and in the rest of the geographies other than Germany it would be about average 60% to 65% and in Germany it would be 80% plus.
- Priyanka Singh:** Has the working capital improved post the better prices in steel?
- Kamal Sarda:** It is improving. As of now, it is not worth mentioning as such. It is improving. The German situation has improved.
- Moderator:** Thank you. We have the next question from the line of Amit Shah from MN Securities. Please go ahead.
- Amit Shah:** Thank you for the opportunity. My question is on Q1 revenue growth How much is contributed from value and volumes?
- Kamal Sarda:** This was the previous question. I have given the answer already.
- Amit Shah:** Fine. Thank you.
- Moderator:** Thank you. We have the next question from the line of Pratiksha Daftari from Aequitas Investment Consultancy. Please go ahead.

- Pratiksha Daftari:** Sir if you could just give us status update on the current capex plans as in one at the Odisha, Kandla, so when do we expect completion and when do we expect it to go on stream?
- Kamal Sarda:** We have provided the capex details in our Investor Presentation. More or less the current capex guidance, which we gave in our last year in India we are more or less through at about 85% to 90% and in Germany we have already invested about 60% so far. We have given a €2 million capex plan in Germany, which is now at about 60% complete. The balance would be done in this FY2019.
- Pratiksha Daftari:** 40% we expect to complete by the end of this year?
- Kamal Sarda:** Yes end of this year.
- Moderator:** Thank you. We have the next question from the line of Sunil Kothari from Unique Investments. Please go ahead.
- Sunil Kothari:** Thank you for the opportunity. Sir pardon me for may be less understanding, but what is your thought process on this raw material cost, which is going up? As an investor, what we understand is these graphite's and bauxite and so many minerals prices are going up, so how will we be able to pass it on immediately and what is our thought process on this?
- Kamal Sarda:** The raw material price increase is applicable to all refractory suppliers and it is very well known to the steel industry because steel industry has seen the input cost going up. Graphite and electrode prices have gone up almost 10 times, so they know that this is a crisis situation, so in this with all the refractory companies getting affected and steel plant or the user industry, I would not say only steel plant because we only deal with steel, the user industry is aware of that fact, so today anybody would give first preference to people who are in a position to supply, so prices come slightly secondary, so the user industry is now in a position they are willingly giving some price increases. Any increase in input cost will get offsetted by the price increase maybe on a case-to-case basis, so we will get that benefit in the ordering cycle. Some of these orders are fixed price contracts so whenever the next ordering cycle comes in possibly the user industry will understand this and give us the price. In fact they have given, we have got quite a number of cases where we have got price increases.
- Sunil Kothari:** Sir any rough ballpark may be industry figure or company figure about type of volume growth you are expecting say may be current year or may over the next two years because now this Bhushan Steel's both the plants will be under working condition, so capacities are already added. What type of volume growth do we expect?
- Kamal Sarda:** You look at the Indian industries volume growth and it will be proportionate to that. If the Indian Steel Industry grows by 6% or 7% the refractory industry will also grow by 6% to 7% whereas in IFGL's case we are also dependant on various overseas countries. Europe is also very robust today. America is also very robust today. UK is also showing sign of improvements. I have

already mentioned about the volume growth. I think in the same line the volume growth is expected.

Sunil Kothari: Great Sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead. Anupam your line is unmuted. Please go ahead with your question.

Anupam Goswami: Good afternoon Sir. I just wanted to know the various capex that you have planned is almost complete to the Indian segment, just wanted to know when this plant will be ready and when can we expect the incremental revenues from this capex?

Kamal Sarda: This was an ongoing capex, continuous capex. It is not a project by itself. These are all debottlenecking capex. Whatever growth we have seen last year also in FY2018, the growth, which we have seen is partially resultant of the capex, which we have done and this year also Q1 the growth has been because of that capex. Had we not done, the growth would not have been possible, so possibly FY2019 we will see the full year's capex growth.

Anupam Goswami: Sir I see that in Kandla plant that in your presentation you are expanding the capacity from 1,60,000 to 2,40,000, so when will we get the benefit?

Kamal Sarda: It has already started. In the Q1 we have seen a bit of this. To reach to that 100% level of the capacity, it may take about a year also.

Anupam Goswami: Sir any guidance what could be the margin levels, would you be maintaining same or we should be expecting something better?

Kamal Sarda: We do not give any kind of guidance on that. Our expectation is always to grow and improve so that is what our target is.

Anupam Goswami: Thank you.

Moderator: Thank you. We have the next question from the line of Subhankar Ojha from SKS Capital. Please go ahead.

Subhankar Ojha: Thanks for the opportunity. On the performance of your Germany entity, so there was a turnaround in the number, so how sustainable these numbers are in terms of the profitability?

Kamal Sarda: It is a marginal improvement. It is a marginal profit and that is a company, which was doing earlier very good. Part of it is pressure on price and part of it is pressure on input cost. Part of it is because of the overall demand in German market, which is improving and we have also introduced couple of new products there, which is taking some time to get established. There we had expected that wind energy sector would go very high, which in fact has grown at a slow

pace. We are hoping that it will continue to improve, but as far as you are talking of sustainability, I can only tell you in the past we have done much, much, much better. The target is to reach back to those old levels.

- Subhankar Ojha:** Sir secondly there is a €2 million capex, which is there in the pipeline, right?
- Kamal Sarda:** Yes.
- Subhankar Ojha:** When is it getting completed?
- Kamal Sarda:** I think you missed the previous question's answer. It is expected by this FY2019, we should be in a position to complete it. That is the target.
- Subhankar Ojha:** Thank you. Great.
- Moderator:** Thank you. We have the next question from the line of Pratiksha Daftari from Aequitas Investment Consultancy. Please go ahead.
- Pratiksha Daftari:** Sir if you could just tell us out of the total revenues, how much would be exports and do you see any impact of the currencies fluctuations on margins in anyway?
- Kamal Sarda:** Currency fluctuations are not within our control.
- Pratiksha Daftari:** Would that impact you positively or negatively is what I want to understand?
- Kamal Sarda:** This quarter was definitely better I must say. This quarter it was better because our major part of the turnover is Euro based and the Euro has been quite stable. Of course, of late, in the last couple of weeks it has weakened. The Dollar has strengthened against almost all currencies, but we hope that Euro should remain at this level. Our total exports from India are to the tune of 60% to 62% levels and we hope to maintain that level.
- Pratiksha Daftari:** Sir if you could throw some light on performance of the Monocon Group?
- Kamal Sarda:** Monocon did well. This year this quarter as I mentioned in my speech also Monocon had a growth of almost 23% this quarter. They have added couple of customers, so they are also hoping that these orders will continue in the future months. They had got bulk orders for this quarter, but I think these customers are long-term customers, so it should remain with them. I do not see a challenge in Monocon maintaining this kind of performance.
- Pratiksha Daftari:** Thank you Sir.
- Moderator:** Thank you. Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to Mr. Kamal Sarda for closing comments. Thank you and over to you Sir!



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Kamal Sarda: Thank you. I hope I have been able to answer most of your queries. We look forward to your participation in the next quarter. If you have any further queries kindly feel free to contact our Investor Relation Advisor, Strategic Growth Advisor. Thank you very much and have a nice day.

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