



“IFGL Refractories Limited Q4 FY-16 & FY16 Earnings Conference Call”

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Moderator:

Ladies and gentlemen good day and welcome to the IFGL Refractories Limited Q4 FY16 & FY16 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are placed on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Kamal Sarda from IFGL. Thank you and over to you sir.

Kamal Sarda:

Thank you. Hello everyone. On behalf of IFGL Refractories, I welcome you all to the earnings call for Q4 & FY16 financial results of the company. I have with me today Mr. Giorgio Capelli-Director, Monocon Group and Overseas Head, Mr. Rajesh Agarwal- Company Secretary and SGA, our Investor Relation Advisors. I hope all of you have received the investor presentation and gone through it and have had a quick look at the same.

I will give a brief overview of the industry. World Steel Association forecast demand to return to a growth of 0.4% and reach about 1.5 million metric ton. Economic environment facing the steel industry continues to be challenging with the China's slowdown impacting globally across a range of indicators contributing to volatility in financial market, sluggish growth in global trade, low oil price and other commodity prices.

On a positive note some emerging economies in South and Southeast Asia have shown resilient growth and along with NAFTA and the EU are expected to support a recovery in 2017. The WSA expect the steel demand outside China to grow at 1.8% in 2016 and 3% in 2017. ASEAN 5 is expected to maintain a growth rate of 6% and to reach about 75 million metric ton in 2017 as per the WSA figure.

At IFGL, we are positive going forward for various reasons; the MIP imposed by government of India is likely to increase production of steel in the domestic market and coupled with the infrastructure push we believe the domestic business for us to look in a better shape. EI Ceramics if you remember went through difficult times owing to the Chinese dumping. The recent duty structure imposed by USA on imports is likely to increase domestic production, leading to a pick-up in the steel demand there.

Our Kandla operations have fully stabilized. With stable currency and our vast experience in European markets coupled with a good quality product we are hopeful of sustainable financial performance there. Our German business continues to deliver as per the business plan. We have had reasonably good turnaround in financials of Hofmann since the last couple of years and believe the same to continue. This means we have a better outlook for IFGL Exports, Hofmann, EI Ceramics and IFGL standalone and with strengthening balance sheet we are hopeful of better times.

Moving onto the financials; IFGL Refractories on a consol basis reported a total income of Rs722.1crores for FY 16, normalized EBITDA at Rs87.4 crores and PAT at Rs42 crores. The consol earning per share was recorded at Rs.12.1 per equity share. In the backdrop of difficult and volatile operating environment our performance has been satisfactory. The company declared the final dividend including the interim dividend of Rs. 2 per share for FY16. On the standalone; IFGL total income stood at Rs307.3crores with an EBITDA of Rs37.1 crores, the EBITDA margin at 12.1%. PAT was recorded at Rs18.6 crores for FY16. Our focus on sale of high value-added products and association with relatively strong integrated steel mills led to stable performance.

On our subsidiaries, Monocon Group, our UK subsidiary reported a total income of £22.8 million. Profitability was impacted due to a one-time provisioning in Quarter 2 of 0.64 million GBP. Low domestic production owing to increased imports from China impacted the revenue growth. However, even in this challenging operating environments we have been able to report the profit of 0.7 million GBP. We continue to focus on cost control and improving our product mix and sales to credit worthy clients across the industry.

Hofmann Ceramic, our German operation reported its best fiscal year since acquisition in 2008. It reported a total income of €10.6 million, EBITDA of Euro 1.1 million at the margin of 10.4%. Comparatively better economic health of Germany coupled with improved product mix by Hofmann led to better performance. PAT was recorded at €0.7 million with the margin of 6.5%.

EI Ceramics, our US subsidiary is a traditionally high margin business. However increased imports from China resulted in lower domestic production and thus impacted its profitability. EIC reported total sales of \$15.4 million, EBITDA of US\$ 1.6 million at the margin of 10.5%. PAT was \$0.8 million. IFGL Exports our Kandla SEZ Unit reported record profits since inception. This company reported a total income of Rs46.5 crores, EBITDA of Rs11.5 crores with the margin of 24.7% while PAT was recorded at Rs6.6 crores with the margin of 14.2%. We shall increase the capacity of isostatic refractories in the current financial year to 1, 60, 000 pieces per annum. This is all a brief on our company and I shall now leave the floor for any question and answer. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of PriteshChedha from Lucky Investment Managers. Please go ahead.

PriteshChedha: I couldn't get your comments on the standalone operations, why they were soft in the year?

Kamal Sarda: The standalone operations, basically we have an export from there so we export market which got impacted the Europe and all other areas, the Middle East because of this low off-take everywhere, the first quarter and towards the Quarter 3 and Quarter 4 of this financial year so that got impacted. Of course in the beginning of the year, the domestic sales were also not so



good. The other was the foreign exchange rate, it's down compared to FY15, so these three reasons contributed our lower sales in IFGL standalone.

PriteshChedha: Is there a shift your business from IFGL standalone to IFGL Exports?

Kamal Sarda: If you see the IFGL Exports business has not significantly changed from FY15, so there is no major shift from there. But yes we have a common order book, we decide where to make but in FY16 there have been no major changes with that composition.

PriteshChedha: And what is the utilization at IFGL Export?

Kamal Sarda: Now we are almost running full capacity.

PriteshChedha: Initially in the comments you mentioned about domestic growth improving on MIP implementation, what would be a fair guess of domestic growth this year and in steel production in India? Second when I was looking at your presentation, the first slide refers to improvement in utilization of world steel capacity in the last three months which is January 16, February and March which was on a continuous decline from June to December '15. If you could give some comments on this improvement, where do you think would have come, what would have happened?

Kamal Sarda: The improvement happened all across the world other than China. If you look at the measures by America, India and some other countries, it has led to improvement. Even within China the demands has improved. The steel prices have improved almost 20%-25%. Somebody was telling me in China the steel prices improved by almost 40% in the last 4-5 months. So this has improved the overall off-take there also. So the world steel utilization has improved there. Indian growth, we expect to around 6%-6.5% as projected that's what we feel it should be a reasonable growth in this financial year.

PriteshChedha: Just one clarification, it's not to do with the denominator reduction while calculation of this capacity utilization.

Kamal Sarda: No.

PriteshChedha: So it's to do with the numerator which is the production increasing.

Kamal Sarda: Yes.

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

Umesh Raut: If I'm not wrong we were all expecting good year for EI Ceramics particularly for FY16. But I think apart from this dumping of Chinese products over there I think there are couple of more issues which actually hamper the performance of EI Ceramics. So could you please throw some light about that?

- Kamal Sarda:** EI Ceramics performance is only affected by the American steel production which was badly affected in the first nine months of the calendar year 2015. It has only started improving towards the end of that year. So Quarter 4 was slightly better and we see a substantially better performance in this year, it was starting from April, April performance we have seen a lull. I see that this year would be a much better year but majorly the last year was impacted due to the lower steel production in America.
- Umesh Raut:** Have you seen any improvement in terms of demand post of this action by the US authorities over the Chinese dumping of products? Have you seen any demand improvement in last three months?
- Kamal Sarda:** Yes that is what I mentioned. Over the last 5-6 months the time when America has put in some restrictions, the steel capacity utilization in America has also improved.
- Umesh Raut:** Talking about domestic market post this MIP action by the government of India, have you seen any new CAPEX coming in steel sector or any projects which are commencing in the steel sector?
- Kamal Sarda:** I think let's watch for another six months because it's a big shock for Indian steel industry. New capacity addition, we need to watch for the next six months what happen when the steel plants make some money then only it can happen. It cannot happen so quickly.
- Umesh Raut:** But any kind of green shoots which are visible at this point of time that this will happen in next six months or post six months after that?
- Kamal Sarda:** I think let's see the first half performance of the steel industry then only it will be better for us to really comment.
- Umesh Raut:** Our consolidated capacity utilization will be at what level?
- Kamal Sarda:** It will be around 60%-65%.
- Umesh Raut:** As you mentioned during last con call that you're planning to do a CAPEX in Hofmann Group, so any guidance about that?
- Kamal Sarda:** It's already over.
- Moderator:** Thank you. The next question is from the line of Dikshit Doshi from White Stone Financials. Please go ahead.
- Dikshit Doshi:** During the Q4 our consolidated EBITDA margin came down to 10.5%, so on a yearly basis what kind of margins you expect going forward? Can we reach the 12.5%-13% again?
- Kamal Sarda:** The Q4 EBITDA was around 11%. I think that's what the last year full year the EBITDA was 12.6% and that is the kind of EBITDA which we want to cross but of course 15-16 was a bad

year for the IFGL Standalone also as well as the Monocon as we mentioned we have taken 6.5 crores write-off in that year. So that also impacted our overall margins there. We hope 16-17 will not have those external factors and industry will improve and we will see a better year.

- Dikshit Doshi:** Can you just give me how much currency gain we have for the full-year?
- Kamal Sarda:** I don't have the ready figure, can you just pass it on to SGA.
- Dikshit Doshi:** Can you just give some guidance in terms of what kind of growth you expect in revenue?
- Kamal Sarda:** It's difficult to say that.
- Moderator:** Thank you. The next question is from the line of AdityaWaghle from Aequis Capital. Please go ahead.
- AdityaWaghle:** I was comparing your nine months' number this Hofmann and EI versus your full-year numbers. The last quarter seems to have been very good both on EBITDA and PAT level for both companies. Can you just give some outlook for these two going ahead?
- Giorgio Cappelli:** What we are expecting for Hofmann is a good improvement in the first quarter and also the fourth quarter, we have seen Hofmann is dealing with foundry for steel and for the car industry and the car business is doing quite well. All over the world I mean here at the moment USA also USA is improving a lot. We have a lot of good expectation with our new projects where an investment was finished and we see there really some good result so we can see some expansion in the future. So for Hofmann at the moment we are really positive for improvement in performance in 2016-17.
- AdityaWaghle:** You expanded your capacity to 160,000; I didn't quite get that, what was that?
- Kamal Sarda:** That's in Kandla facility.
- Giorgio Cappelli:** It's not Hofmann.
- AdityaWaghle:** What was it before?
- Kamal Sarda:** 80,000 pieces. We will be doubling the capacity. We are in the process of finishing that.
- AdityaWaghle:** This is IFGL Exports you're talking about.
- Kamal Sarda:** Yes.
- AdityaWaghle:** It's completed the capacity expansion?
- Kamal Sarda:** No we are in the process of completion. Maybe in the first half it will be completed.

- AdityaWaghle:** Your outlook for EI Ceramics.
- Giorgio Cappelli:** I am here in America now to attend the conference and you can feel really positive mood in residential. So America the steel production, it's not booming but at least this is really better than last year due to import duties, etc., on the finished steel. So it seems like there is a positive trend, positive feeling so what we can see in the first quarter of 2016-17 that we have some push from the market where we have a good performance at least from a first and second quarter we are positive. To make a long view revision in the steel market is quite impossible but at least for the first and second quarter we can see the positive trend.
- Moderator:** Thank you. The next question is from the line of PriteshChedha from Lucky Investment Managers. Please go ahead.
- PriteshChedha:** Just wanted to clarify when you gave the India growth outlook for FY17 on the steel I was actually looking at the production growth number because my guess is do you agree that production growth in India would be much higher than the demand growth because until last year you had this China imports which were there which had like 15%-20% of the total consumption. What would be your fair guess on the India production growth number?
- Kamal Sarda:** Difficult to say but I think when we talk of 6%-6.5% that's actually the consumption growth. So it's anybody's guess, you can calculate the quantum of reduction in import which will be substituted by the domestic production growth.
- PriteshChedha:** But do you guess it can be a double digit number?
- Kamal Sarda:** It could be, as I said let's wait for some more time because it's too early just the MIP... we have seen some signs of improvement. There is no doubt about it, steel plants which are showing profits now. So we want to see some three months and maybe after the Q1 call we can give you a bit more better picture.
- PriteshChedha:** When I'm looking at the presentation, if you could help us dissect. Your FY14 EBITDA was Rs113 crores and your FY16 EBITDA is about Rs87 crores. See if you could just help us dissect this Rs30 crores reduction in EBITDA number in your opinion what is the key area?
- Kamal Sarda:** FY15 EBITDA was about Rs100 crores and now it is about Rs81 crores. You are trying to compare with FY14 I think.
- PriteshChedha:** So '15 and '16?
- Kamal Sarda:** '15 and '16 our major thing which I mentioned to you Rs6.5 crores which we incurred a loss on a onetime write-off that is one. And definitely overall lower sales at all levels EI Ceramics, IFGL standalone these are the two places where we had lower sales.
- PriteshChedha:** But there would be lower volumes between 14 and 15 also.

- Kamal Sarda:** Could be, especially in the Indian operations. Plus the currency fluctuations because our balance sheet if you look at 80% it is the foreign currency denominated so there are various factors. There is not one factor which attributes to the changed fluctuation. We can sit down separately to discuss.
- PriteshChedha:** Can you give me a CAPEX number?
- Kamal Sarda:** Let's sit down separately.
- PriteshChedha:** But your CAPEX plans in the near term....
- Kamal Sarda:** The CAPEX plan stands for IFGL Exports as I said there is an expansion going on.
- Moderator:** Thank you. The next question is from the line of Kamal Sahu from India Nivesh. Please go ahead.
- Kamal Sahu:** In last five years we have seen a sustainable reduction in debt level and now your debt-to-equity ratio is showing in last five years from 0.7x to 0.1x if I'm not wrong. Can we expect by this FY17 our company will be a debt-free company or management is having any CAPEX expansion plan?
- Kamal Sarda:** No, there are some debts which will carry over to FY18 also. It may not be completely a debt-free but yes, it could be that net debt would be closer to zero.
- Kamal Sahu:** What are the factors which caused lesser net realization in Monocon and EI Ceramics?
- Giorgio Cappelli:** Monocon factors due to problem with the steel production in UK as you know it was close on site. There was major problem with one client and the steel production in UK is troubling a lot. The main problem was resulted due to a shutdown that we decided it caused roughly £600,000 and this was the major problem affecting our PAT. Whereas if you take Monocon is a company divided into the refractory and engineering. Engineering group is doing quite well and also we are quite hopeful for 2016-17. So the major problem is only due to steel production dropping down like reduction in UK. EI Ceramics was affected due to obviously low production and increase of import of steel from China in USA. So the dropped down almost 10% to 15% and US government reacted with import duty on the steel production and as I said before and now that the mood here in America is really better new facility and plant is improving in America we believe that therefore '16-17 will be a good year for EI Ceramics at least for the first two quarters.
- Kamal Sahu:** Can we get a positive recovery by this year?
- Giorgio Cappelli:** Everything depending on what China and the anti-dumping procedure therefore America so for EI Ceramics we can expect really positive year. Obviously it depends because EI Ceramic is all in steel industry.

- Moderator:** Thank you. The next question is from the line of Abhisar Jain from Centrum Broking. Please go ahead.
- Abhisar Jain:** My question is on Monocon, so obviously we have faced a pressure in those operations because of very tough market and also closure of one of our customer plants. I wanted to ask that now what is the outlook for that operations, are we going to be close to the run rate of revenue that we have done in FY16 which is around GBP23 million or is it going to be slightly higher or lower than that?
- Giorgio Cappelli:** Like I said before in MonoconUK has two departments, one is refractory and other is engineering department and engineering department is doing quite well. We have already some good orders in-house and we can expect to a little bit growth in the total order but surely we are improving PAT. We don't see any shutdown of production in UK. We are studying some new idea, some cost reduction so we are quite positive that we will improve also the refractory part of the business. In USA as I said Monoconwe suffered a lot from steel production and now this quarter was quite good.
- Abhisar Jain:** On an overall Monocon Group basis combined with the UK and US as well as few China companies, on an absolute overall basis for Monocon Group we expect slight growth from the last year number, right?
- Giorgio Cappelli:** Yes because we make from China we had some good cost reduction in raw material and we improved our performance in our export there. In engineering, we get some machine and that machine will improve also our refractory.
- Abhisar Jain:** Also the second question on Monocon I have is related to the margins. Obviously it's a tough market there margin hit has also been visible in this year, what would be the outlook there? Will it be remaining suppressed or is there some improvement there?
- Giorgio Cappelli:** What really my colleague, Kamal Sarda said, the main problem of Monocon UK was at the site, it was more than £600,000. So if you take £600,000 and add that to our PAT plus the amount at the site was shut down our PAT was quite good in 2015. But it's not the reality so we had shut down the plant and shutdown cost was about £600,000.
- Abhisar Jain:** Wanted to understand little bit on the export side which has suffered from the standalone business because exports are also too mainly in the European market. So now what is the situation in the export side, are we seeing some improvement from what we have done in the Q4?
- Kamal Sarda:** Yes. We are seeing some good signs of improvement there. I think it should be better in current quarter.
- Abhisar Jain:** This improvement is more on the volume front or there is something on realizations also?



- Kamal Sarda:** No, mainly we talk in terms of volume, so volumes are also getting better. When we have pressure on price so realization is something which is we need to understand how and what is the overall mix. But I can tell you that things are getting better.
- Moderator:** Thank you. The next question is from the line of Shubhankar Ojha from SKS Capital. Please go ahead.
- Shubhankar Ojha:** Wanted to get the CAPEX number for FY16 and what would be the CAPEX '17?
- Kamal Sarda:** As I mentioned let pass this question to Shogun of SGA, I will send it across to you separately.
- Shubhankar Ojha:** For FY17 do we expect overall growth in terms of revenue growth compared to FY15 where we were, obviously FY16 was a very challenging year for us, FY15 we were much better. So do we expect a growth if I take '15 as a base?
- Kamal Sarda:** I think we need to understand how much the steel market would recover in this financial year. I think it's a very challenging year this '16-17, before we really comment on any of these figures we need to understand the steel industry. We'll see a kind of recovery, we just see some of the government have taken some measures, antidumping, safeguard or minimum export, minimum import price. But the actual performance needs to be seen. As I mentioned to you let's watch the first half of this financial year. I can only say that our idea is I think we should be doing better than last year.
- Shubhankar Ojha:** I don't know if you have shared the utilization number, overall standalone as well as the concentrated level.
- Kamal Sarda:** We can sit down separately.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Sarda for closing comments.
- Kamal Sarda:** Thank you friends. I hope I have been able to answer most of your queries. Some of the queries which have not been answered can be sent to our Investor Relations Advisors, Strategic Growth Advisors and we look forward to your participation in the next quarter. Thanks a lot.
- Moderator:** Thank you. Ladies and gentleman, on behalf of IFGL Refractories Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.