



“IFGL Refractories Limited Q4 FY2017 Earnings Conference Call”

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Moderator: Good day ladies and gentlemen and a very warm welcome to the IFGL Refractories Limited Q4FY2017 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. 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. 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 am now glad to handover the conference over Mr. Kamal Sarda from IFGL.

Kamal Sarda: Thanks, and good afternoon to all on behalf of IFGL Refractories, I warmly welcome you all to the Earning call for Q4FY2017 financial results of our company.

I have with me today Mr. Rajesh Agarwal, Company Secretary and SGA our investor relation advisor. I hope you all have received and seen the investor presentation. I start by giving you a brief on industry.

The refractory industry witnessed better times especially in H2 of FY2017. The core sectors like, steel, cement and also glass have seen healthy demand projections going forward which is likely to increase the refractory consumption.

On the global front, 2018 also seems to be promising with a healthy demand projection for the steel consumption other than China. This is as per the release of WSA. In India, the new Steel policy 2017 is very encouraging. Government is targeting to increase the steel capacities to 300 million metric ton with the per capita steel consumption increasing from the current level of 60 Kgs to 160 Kgs by 2030. These measures, we believe are likely to bring a fresh impetus to Indian steel industry benefiting the refractory industry also.

I shall move on to give you the status of the merger of the company IFGL Refractories with IFGL Exports. The scheme of merger has been approved by the shareholders and creditors of both the company. Applications for confirmation of the scheme have already been filed before NCLT, Kolkata. The merger is a positive step for the shareholders of the Company as will result in cost rationalization, resulting thereby improved overall gross profit margins. Further, the profit attributable to the minority interest will also get released. The consolidated entity will emerge as a larger entity going forward. The merged entity financial reflects of 14.9 % increase in total income of FY2017 to Rs 376 Crores, 16.5 % increase in EBITDA to Rs 56.5 Crores and also achieved an EBITDA margin of 15 %, an increase of 10 basis points year-on-year.

Coming on to the performance of our subsidiaries, Monocon Group our UK subsidiaries reported a total income of 24.3 million Pounds for FY2017, a growth of 6.8%. EBITDA and PAT have mainly doubled on YoY basis to 2.1 million and 1.4 million Pounds respectively. The group reported an ROCE of 10.3%.

Our focus of engineering services in overall improvement in the world steel has resulted in better performance by the group. We continue to work on introducing new services and solutions to improve our international levels.

Hofmann Ceramic, our German business reported a total income of 10 million Euro for FY2017, EBITDA was 1 million Euro with margin of 10.4%, PAT was 0.6 million Euro. This company's ROCE was 6.8%. The board has approved a capex of around 2 million Euros, which shall be towards capacity increase of the machine and efficiency enhancement.

EI Ceramics our US business is traditionally a good margin business. With safeguard measure in place to protect the domestic steel industry, we have witnessed greater performance in FY2017. EIC reported total income of \$17.5 million with a growth of 14% YoY, EBITDA was \$2.8 million with a margin of 15.9% and PAT was 1.67 million dollars with a margin of 9.5%. The ROCE of the company was 19%.

IFGL Exports, our Indian subsidiary focusing on export market and operating from Kandla SEZ reported a total income of Rs 80.4 Crores for FY2017 with a growth of 72.8% YoY. EBITDA was Rs 21.4 Crores with a margin of 26.6%, while PAT was Rs 16.5 Crores with a margin of 20.5. The phase II expansion was completed in early 2017. In fact, around mid 2017, which resulted in the topline growth.

This company shall now execute a third phase expansion thereby shall add another 80,000 pieces of ISO product, increasing the overall capacity to 2,40,000 pieces. The capex for this expansion is approximately Rs 10 Crores.

In the standalone IFGL business, the total income stood at Rs.354 Crores during FY2017 with EBITDA of Rs.35.5 Crores and PAT of Rs.16.8 Crores. The board of directors of the company discussed dividend for FY2017 at their meeting on May 6 and left the same for consideration at an appropriate time by the board of directors of the merged entity.

The increased steel production and better working capital environment with the steel companies has been a big positive for the refractory industry. Government support to the steel sector is benefitting the Indian refractory producers.

At the Odisha plant, we are augmenting our slide gate and Zirconia Nozzles manufacturing capacities at an approximate spending of about Rs.10 Crores. Put together our capex plan apart from normal capex is about Rs.35 Crores which will be funded by a mix of debt and equity. On the balance sheet front, we have a gross debt of Rs.84 Crores.

On a consolidated level with a cash and cash equivalent of Rs.56 Crores resulting in a net debt of Rs.28 Crores.

Our network has an item of foreign exchange translation reserve which has seen a loss of Rs.34 Crores owing to the currency fluctuation largely due to adverse movement of GDP.

This is all gentlemen. I now leave the floor open for any questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: What explains the dropping EBITDA margin in the standalone operation and do we book any export revenue in the standalone operations?

Kamal Sarda: Yes, there is an export also in the standalone if you see the standalone, we had an export of Rs.190 Crores in this standalone. One of the reasons for drop in EBITDA is the foreign exchange. Second is, in the domestic front, there is a severe price competition plus some impact of adverse movement of foreign exchange and the raw material and towards the end of rather especially Q4 there was a steep increase in sea freight. It is a combination of factors so that is the reason. We are majorly doing the domestic business from here so that is one of the reasons, but now I think going forward we must look at IFGL and IFGL Exports put together so that is why we in the presentation have given the merged financial also.

Pritesh Chheda: Do we have intercompany sales so let us say a standalone operation would be selling to one of these Monocon, El Ceramic and Hoffman?

Kamal Sarda: We have yes, we have.

Pritesh Chheda: But is it a substantial portion?

Kamal Sarda: From Monocon between the other group companies it may not be very significant but there is a transaction.

Pritesh Chheda: But India operation selling to any of these?

Kamal Sarda: Yes.

Pritesh Chheda: So that happens through standalone or it happens through IFGL Exports?

Kamal Sarda: Both.

Pritesh Chheda: Lastly, I just want to check in IFGL Exports what is the capacity utilization that we are working on as on date and that plant was available for what time period in FY2017 and you have mentioned in your presentation about Capex, does it mean doubling of capacity and so doubling of revenue on that capacity expansion?

Kamal Sarda: I think in our presentation what we mentioned was some particular line items. We mentioned about increasing the capacities for Slide Gate and Zirconia Nozzles, in these specific segments we are planning to increase our capacities. Presently we are operating at around 80% levels.

- Pritesh Chheda:** Particularly those segments?
- Kamal Sarda:** Very specific to those segments.
- Pritesh Chheda:** So IFGL Exports capacity or export asset what revenue can it reach to on peak utilization of all product line put together?
- Kamal Sarda:** Let us put it IFGL Exports we are planning to increase it to 2,40,000. Presently we are utilizing almost 1,50,000 - 1,70,000 making it about that level. So, from IFGL Exports we can expect on a full capacity utilization which is about Rs 150 Crore at constant currently levels.
- Pritesh Chheda:** After this expansion?
- Kamal Sarda:** After this expansion.
- Pritesh Chheda:** And all products put together?
- Kamal Sarda:** IFGL Exports presently making only one product.
- Pritesh Chheda:** So, which is like 1,60,000 pieces?
- Kamal Sarda:** Yes.
- Pritesh Chheda:** What is the utilization of that 1,60,000?
- Kamal Sarda:** At presently we are almost full now.
- Pritesh Chheda:** Thank you very much Sir.
- Moderator:** Thank you very much Sir. We will take the next question from Bhalchandra Shinde from Anand Rathi.
- Balchandra Shinde:** The target which you said after increasing the capacity, by when we expect to increase the capacity to 240,000 in tonnes?
- Kamal Sarda:** I am hoping that it should be by early part of Q4.
- Bhalchandra Shinde:** Q4 FY2018?
- Kamal Sarda:** Yes.
- Bhalchandra Shinde:** How much time will take reach the optimal utilization level?
- Kamal Sarda:** It all depends on market but I think it will be quite soon.

- Balchandra Shinde:** Okay. Regarding our International subsidiary like Hofmann, EI Ceramics, there because of currency appreciation, I believe we may see this year translation loss or M2M loss on receivables there will be that risk this year?
- Kamal Sarda:** When we are just translating adding the balance sheet there is no risk. There is no risk of bad debts as such what you are talking of. There is a risk of foreign exchange fluctuations like this year I think if I am not wrong the Pound was around 83 and something like that and last year we were at 98. So obviously, the sales turnover whichever was recorded at a much lower rate, had the pound remained at 98 with all the currencies remaining same the turnover would have been much higher.
- Bhalchandra Shinde:** You mean to say right now at what rate we have translated, it will be average currency rate or it will be the close currency rate?
- Kamal Sarda:** Month on month.
- Bhalchandra Shinde:** Regarding the profitability in Hofmann, how we expect it to continue, on profitability front trend wise how you expect?
- Kamal Sarda:** We are in fact working towards improving the margin. I cannot predict right now what will be there. Let us assume this will remain the trend as such.
- Bhalchandra Shinde:** I will come back for further questions.
- Moderator:** Thank you. We will take the next question from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.
- Nagraj Chandrasekar:** Thank you for taking my question. You mentioned earlier that within the standalone number you saw severe price competition on the domestic market. Just wanted to get a sense of what really are utilization levels for the domestic market for you and your competitors and who is really driving down prices that you see?
- Kamal Sarda:** These are some of the things, which I cannot comment on. You will appreciate this is competitive market. Anybody can work on the price which they are comfortable to, but yes, in the domestic front because of the domestic steel industry scenario not being good, the steel industry itself is trying to tap the competitors on how to reduce the prices but there has been a serious price competition in the last couple of years on the domestic front.
- Nagraj Chandrasekar:** On the steel production growth on the domestic front you mentioned the 300 million metric tonnes target going forward to the government, what really do you think are the steel products that will grow faster than average do you think flat?
- Kamal Sarda:** You have to go through the National Steel Policy 2017, which is there. I have only quoted the National Steel Policy.

Nagraj Chandrasekar: I used that as benchmark

Kamal Sarda: It is mainly the infrastructure growth, which has to happen, and the real estate, which the present government is talking of house for everyone by 2022 and 2025 and those things it is only the target of the government, which we are trying to say that government has an ambitious target. Obviously, we will only go with the government's target how they want us to also be prepared for that. Obviously, I must say that government has always had ambitious steel policies in the past also, but never been able to achieve it. I am not saying this is also not ambitious, this is also very ambitious target, which is difficult, but I think this will help us.

Nagraj Chandrasekar: No doubt absolutely just wanted to understand the ratio of refractory product used by type of steel what would it be for flat steel versus long versus long V bars?

Kamal Sarda: I do not have that kind of data but the steel consumes most part of the refractories. I do not have the data between the refractory consumption because we supply across the industry.

Nagraj Chandrasekar: Thank you so much Sir.

Moderator: Thank you. We will take the next question from the line of Bhalchandra Shinde from Anand Rathi. Please go ahead.

Bhalchandra Shinde: Sir, how you see EI Ceramics sales growth because this year the largest of the growth was because of the antidumping duty and there was an improvement in the steel production but do we expect to continue that kind of a growth again in this year, strong growth or it will be a moderate growth?

Kamal Sarda: Our targets would be a good growth, so that is what I can only say that but let us see what the new government is trying to finally implement a policy of protecting the domestic industry. There are lots of refractories, which are imported into America. If they are talking of putting a barrier and promoting more domestic industries that will definitely help EIC much more than what we are talking of but yes we have growth target. I think let us wait for what the Trump administration does on the protection front more.

Bhalchandra Shinde: The slides, which you have shown about merger of IFGL with the IFGL Exports financials it represents Refractories standalone figures, will get changed to these levels. Is it right?

Kamal Sarda: These are merged figures of both IFGL and IFGL Exports eliminating the intercompany transaction.

Bhalchandra Shinde: Is it a standalone plus IFGL Exports?

Kamal Sarda: Yes. Standalone plus IFGL Exports.

- Bhalchandra Shinde:** When we do the addition what we have done is like in FY2017 sales Rs.22 Crores got added and on the EBITDA front also Rs.22 Crores got added?
- Kamal Sarda:** There are lots of sales of IFGL Exports, which are routed through IFGL Refractories. As I mentioned in my speech and you would have also seen in the presentation that IFGL Export had a sale of Rs.80 Crores and out of that Rs.22 Crores is direct sales and rest is through IFGL Refractories and that is why the sales has got eliminated but obviously EBITDA will only get added.
- Bhalchandra Shinde:** Thank you.
- Moderator:** Thank you. Next question is from the line of Pritesh Chheda from Lucky investments. Please go ahead.
- Pritesh Chheda:** IFGL Exports capacity when does it come? If you have to scale up to 100% utilization of the expanded capacity, what time would it take?
- Kamal Sarda:** As I mentioned in one of my previous questions that we are expecting in the early part of Q4 this expansion should get complete, basically in Q4 FY2018 and as far as utilization is concerned we will do it sooner but it all depends on the market.
- Pritesh Chheda:** But, from now to Q4 do you have capacity to grow in IFGL Exports?
- Kamal Sarda:** At least compared to last year, yes.
- Pritesh Chheda:** There could be what 8-10% extra capacity that we will have or more?
- Kamal Sarda:** May be a bit more.
- Pritesh Chheda:** My second question is on the three international subsidiaries, if I go back to your presentation and see the volume growth forecast put up by the Industry Association for respective geographies, on that kind of a volume growth reported for your operations, is there operating leverage available in the business?
- Kamal Sarda:** Yes.
- Pritesh Chheda:** Are those the indicative volume growth, which one should work with for those international operations or there is scope for more growth?
- Kamal Sarda:** I do not know which paper you are referring to?
- Pritesh Chheda:** The map which is there in the PPT which identifies region wise or country wise volume growth forecast given by Association and you have your operations in some of those geographies, so I

am superimposing those volume growths for your respective international operations is that the way one should look at?

Kamal Sarda: You cannot look at 1.4% and 2.4% so obviously, our target should be much more.

Pritesh Chheda: What kind of growth is possible in international operations?

Kamal Sarda: It is difficult to say that. As I said we do not give a forward-looking statement but what we can say that our internal targets are to have a growth of at least 10% and that is not a forward-looking statement, I can tell you that.

Pritesh Chheda: You have sufficient capacities in those?

Kamal Sarda: Yes.

Pritesh Chheda: On that kind of growth there is operating leverage in the operation?

Kamal Sarda: Yes.

Moderator: Thank you. The next question is from the line of Amit Kadam from LIC Mutual Funds. Please go ahead.

Amit Kadam: Sir, my question is on the working capital scenario in this industry. How is it now in this last year and how do we see because one of the things on the receivable side. The receivable have gone up by almost to 52 odd Crores on consolidated balance sheet? Last time in FY2016 we had to take a hit because of this receivable going bad so how do we see this upcoming years?

Kamal Sarda: What I can tell you is that, as of today we have to live with high receivables till the liquidity situation in the steel industry, especially where we work does not improve. So we have to work with this kind of receivables.

Amit Kadam: Just wanted to understand then what is the level where you are comfortable working with and/or may be the new normal till the things actually is out for us?

Kamal Sarda: We do not work with companies where we are not sure of getting money. We work with companies, may be there is a delay but on the regular basis the monies are received. That kind of credit controls we try to put in.

Amit Kadam: Can you quantify like earlier we were comfortable with 90 to 100 days and now we have stretched it to.

Kamal Sarda: There is no question of comfort. Today also we are not comfortable, yesterday also we were not comfortable. We would be comfortable to work with cash but the point is what you can do if the industry does not have cash. So, what we said that we are comfortable with companies who does

not have a track record of defaults. At least their integrities are good so we try and work with them. I am not saying we have outstanding of almost seven months or eight months but at least we are doing a regular business and the money comes in. We do not have a question on their integrity.

Amit Kadam: But in that case, we may lose in that, right, we will prefer loosing out in those kind of sales which are going flat for the year but we would not compromise on the receivables part?

Kamal Sarda: No we will not.

Amit Kadam: The things have continued to remain at least in the near term what we see?

Kamal Sarda: I do not think it is going to resolve so fast.

Amit Kadam: Thank you. That is it from my side.

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

Kamal Sarda: Thanks, everyone for participating in this conference call. I hope I have been able to answer your queries. We look forward to your participation in subsequent quarters. If you have any queries you may contact our Investor Relation Advisors, Strategic Growth Advisors. Thank you all and have a nice day.

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