



## **“IFGL Refractories Limited Q4 FY-18 Earnings Conference Call”**

**May 23, 2018**



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**Moderator:** Good morning ladies and gentlemen. Welcome to the IFGL Refractories Limited Q4 FY18 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on 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 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-Chief Executive Officer, IFGL Refractories Limited. Thank you and over to you, sir.

**Kamal Sarda:** Thank you and good morning to all. On behalf of IFGL Refractories Limited, I warmly welcome you all to the earnings call for Quarter 4 and full year FY18 financial results of our company. I have with me Mr. Rajesh Agarwal, our Company Secretary and SGA, our Investor Relation Advisors. I hope all of you have had a chance to go through the presentation which is uploaded on the website of the company and stock exchanges.

Let me give brief industry update. As per the World Steel Association, the global crude steel production in first quarter of 2018 rose by 4.1% on a YOY basis, reaching 426.6 million tons. Asia produced to 294 million tons, reporting an increase of 4.6% over the first quarter of 2017. China as usual is worlds top producer with more than 210 million tons over the same period followed by European Union, India, Japan and the US. EU produced 43 million tons, up by 0.9% compared to the same quarter of 2017. Germany, Italy and Spain are the three top producers in euro zone. North America produced about 30 million tons showing an increase of 1.9%. In the US the crude steel production was about 20.7 million tons, increase of 2.2%.

The capacity utilization ratio of the 64 countries as reported in WSA was about 75% in March showing an increase over 2%. The utilization ratio for Jan and Feb was about 72.6 and 73.6 respectively. The improving utilization rates are a clear indication that steel demand is picking up globally and the steel utilization rates are expected to increase up to 86% by FY20. This increase in the utilization rate will also lead to an increase in the refractory demand thereby benefiting global players like us. Further China has recently committed itself to reduce the total steel production capacity to below 1 billion tons by 2025. This shall further aid rise in steel prices globally and that resulting in higher production.

Domestic steel industry; the total installed capacity in India is expected to rise to 146 million metric ton by 2020, on the back of expansion plan by various large steel companies. Further the resolution of insolvency cases in NCLT of distressed steel companies will settle most of the steel sectors outstanding debt of almost 3.26 lakh crores and about fifth of the Indian crude



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steel capacity are held by these companies which will move to stronger hands resulting in a better working conditions and effective management. As per CRISIL the 22 million metric tons of capacities under resolution have brownfield expansion potential of another 20 million metric tons based on their environmental clearance regulatory filings. So these are good things about the Indian steel industry.

As we are all aware that recently Tata Steel acquired Bhushan Steel from the NCLT process, this will add to almost 5.6 million metric tons to their existing capacity of almost 13 million tons. Tata Steel has already announced an expansion of its Kalinganagar plant in Orissa which will add another 5 million tons capacity over the next four years. Their targeted capacity expansion is up to 10 million tons. They also have a plan to expand the capacity of Bhushan Steel with production units spread over Orissa, Maharashtra and UP. Tata Steel recently indicated that Bhushan's capacity can be taken to about 8 million tons in future from the current of 5.6 million tons capacity.

In nutshell the global utilization rate is expected to rise in the future and changing landscape in the domestic steel industry due to the resolution process will result in consolidation in the sector. The production and utilization levels are expected to rise thereby resulting an increase in demand of refractories globally as well as in India.

I now come back to our financial performance for the FY18. Consolidated performance for FY 18, the total income was 840 crores which is up by 9%. EBITDA was 110 crores with the margin of 13%. As usual we had a write-off of goodwill of 27 crores for the full-year. PAT was 47 crores. Cash profit was 100 crores for the year which is up by 19% year-on-year. On the standalone basis FY18 the total income was 445 crores, up by about 19%, EBITDA 75 crores, up by about 41% with the margin of 17%. Goodwill write-off as usual is about 27 crores for the full-year, PAT was 23 crores, showing the growth of 24% with a margin of 5.1%. Cash profit was 72 crores which again has shown a growth of about 46%.

On the international business front:

EI Ceramics, the US subsidiary -the total income was \$16.8 million with an EBITDA of 2.5 million and the margin of 15%. PAT there was 2.2 million of 13% margin.

Monocon, our UK subsidiary with all its sub-subsidiaries for the FY18, the total income was £25.8 million, representing a growth of 6%. EBITDA was 2 million with the margin of 7.8%. While the PAT was £1.4 million with the margin of 5.5%.

Hofmann Ceramic, our German business, the total income was Euro 10 million, EBITDA was 0.2. This was the business which grew slightly slower in last year.



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This is in nutshell about our financial performance and I will be happy to answer any questions.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sagar Shah from Neha Securities. Please go ahead.

**Sagar Shah:** My first question is how do we see things as Hofmann going ahead as it has been an underperformer for FY18, so any views on that?

**Kamal Sarda:** Hofmann, we had introduced few new products there. I think the acceptability of the product is taking a bit more time. We hope that the current financial year will be better because we are spending lot of money to upgrade the facility to reduce various costs and bring in operational efficiencies there. We hope in the current financial year we will be able to see bit of a turnaround. I will not be able to comment exactly what will be the figures this year but I think this will be a turnaround year for Hofmann

**Sagar Shah:** And also we have seen that the overseas subsidiaries are showing a bit tepid performance as compared to FY 17, so any particular reason for the same?

**Kamal Sarda:** One of the reasons is as I said Hofmann did not do very well so that brought the overseas performance slightly down. We had slightly low profit in Monocon&in EI Ceramics in US also; just the first half was not too good. But beyond the first half we have taken various steps so that the second half was much better for Monocon. EI Ceramics in the US will do much better in this financial year. I'm hopeful that this year the overseas subsidiaries will do better.

**Sagar Shah:** The last question would be that the debtors seem to have shot up to around Rs. 56 crores, so any particular reason for the same?

**Kamal Sarda:** One major contributor is our increase in sales which is majorly because of the increase happened in overseas business i.e. exports. Exports usually is about 4.5-5 months debtors, so as I said nothing which is alarming there. There were a few debtors which got delayed last year but I think the first quarter we will see a substantial improvement in the debtor's collection. All this increase happened in the quarter for second half of the year, so the debtors will accumulate in the March end. But I think now the rolling has started possibly this will come down. There is nothing to worry about it. This is very usual I think for us.

**Moderator:** The next question is from the line of Lekha Nahar from Shilpa Stock Broker Pvt. Ltd. Please go ahead.

**Lekha Nahar:** I wanted to know about your CAPEX plan.



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- Kamal Sarda:** Our CAPEX, it's there in the presentation if you can go through it, if you go through the slide #17 which is there. In our Orissa plant we have targeted about 10 crores, out of which we have almost spent 7-8 crores. So apart from normal CAPEX there will be another 3-4 crores this financial year also. And in Kandla plant we've planned to spend 10 crores, so already spent about 60%-70% of that and in Hofmann we had planned about Euro 2 million and we have spent half of it so the rest half will be spent this financial year or maybe the first half of the year.
- Lekha Nahar:** How do you see demand in the near future both on domestic and international front?
- Kamal Sarda:** The demand as I mentioned in my initial speech on the steel scenario, I see the steel scenario being very positive. All the parts of the world are showing a growth in the production and the consumption part. The capacity utilization is also going up. So I see bright days ahead for the steel industry.
- Moderator:** The next question is from the line of Ankit Agarwal, an individual investor. Please go ahead.
- Ankit Agarwal:** My first question is, we see a drop-in margin at the subsidiaries level from FY17 to 18, any particular reason for that?
- Kamal Sarda:** I think I have answered this question a couple of questions back. One of the major reasons is our German subsidiary did not do well last financial year. There is no particular reason as such. That cost going up, the couple of products which we thought that will be successful in the market that is getting delayed. But I think that current financial year should be much better for Hofmann also. And slight bit of profit drop in Monocon, in Hofmann and in EI Ceramics primarily because of the cost increases and all other things. So, overall mainly Hofmann has been the major reason for drop in profits.
- Ankit Agarwal:** Any affect of the US ban on the steel imports like any increase in demand witnessed in EI Ceramics?
- Kamal Sarda:** US demand, I don't know you will be knowing much better about US demand. But the steel industry is doing better in US today, primarily for two major reasons, one those restrictions on steel and second the oil prices going up so the shell gas production has gone up, so consumption of the steel pipes by shell and all has started. So I see a positive impact there in US, US will continue to do better in the next couple of years.
- Moderator:** The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.
- Manish Ostwal:** I have two questions. One is on this refractories current capacity utilization what is the average level in FY18?
- Kamal Sarda:** Various companies will have various capacity utilization, but on an average if you look at, it will be about 65% to 70%.



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- Manish Ostwal:** You did talk about the Bhushan Steel acquisition by Tata Steel, now that plant will be operational at a much higher utilization level, so how do you see because of that there will be impact on the overall demand for refractories, can you say something on that?
- Kamal Sarda:** No, the plant is already running. The plant did not stop as such. Maybe the plant did not run to full capacity, so I think Tata Steel has already taken steps to increase the capacity utilization there and they are talking of almost 1.5-2 years to bring it up to the full capacity. They also have said that there is a possibility of an expansion there also. So this will definitely help the refractory industry.
- Manish Ostwal:** In FY18 what was the volume growth in our business?
- Kamal Sarda:** I think we should be talking of about 8% to 10%.
- Moderator:** The next question is from the line of Aditya Wagle from Aequitas Investment Consultancy. Please go ahead.
- Aditya Wagle:** Just wanted to ask you about Monocon, how was the performance and what do you expect from Monocon going ahead?
- Kamal Sarda:** Monocon performance was, I would say decent. They had a growth of almost 6% as I mentioned in my speech. I see the current year also should be growing well but having said that I am putting a rider that this may not go to 15%-20% growth there but we are trying to introduce few products there. So we will wait for those new products to get stabilized there but those companies will be doing on a stable basis..
- Aditya Wagle:** When you said your average capacity utilization is 65% to 70%, I am guessing the Indian plants would be at a much higher utilization than your foreign geographies?
- Kamal Sarda:** Yes. The plants in ISO products our capacity utilization will be 80%-85%.
- Aditya Wagle:** ISO products made at which plant?
- Kamal Sarda:** Both the plants in India.
- Aditya Wagle:** And ex-India what would your average utilization level be?
- Kamal Sarda:** 70%.
- Aditya Wagle:** Except India?
- Kamal Sarda:** Except India it will be about 60% approximately.



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- Moderator:** The next question is from the line of Rohit Sinha from Emkay Global Financial Services Ltd. Please go ahead.
- Rohit Sinha:** My question is on the margin front, if we see margin as compared to the Orient Refractories, they are having much higher margins. So where we are seeing at least comfortable margin which you would be looking in the future?
- Kamal Sarda:** Orient has a slightly different market than ours, slightly different because if you look at major part of our business--more than 50%-60% approximately is exports. Orient's major part is domestic business, so that's something which is there. We cannot compare exactly on those fronts.
- Rohit Sinha:** Doing export, does it bring down our margin or there is some other factors in it?
- Kamal Sarda:** I would not say it bring down the margins but definitely I think I have explained this in a different question, they have unique business situation there. They are one of the major players in the mini-mill segment. I don't know whether you follow Orient Refractories or not.
- Rohit Sinha:** Yes we are following it.
- Kamal Sarda:** Their one of the major parts of the business is supplies to mini-mills industries.
- Rohit Sinha:** Mini-mill industries, they have high exposure there.
- Kamal Sarda:** Virtually I would say they are a majority supplier there. As I understand their margins are much higher on those fronts and we are in a competitive market, so our margins would be slightly lower than others.
- Rohit Sinha:** So till what level or what margin you would be looking at in future also to be on a comfortable side?
- Kamal Sarda:** We definitely would look at higher margin always. I can't comment on the margins front.
- Rohit Sinha:** My next Question is on your Isostatic plant, you said that your capacity utilization is somewhere around 80%-85%, so any plan for further addition?
- Kamal Sarda:** Our capacity expansion plan in Kandla we almost did last year. So we will be adding capacities now this financial year giving us a scope of further growth.
- Rohit Sinha:** I believe that Isostatic has slightly higher margin as compared to other segment?
- Kamal Sarda:** Not really, our major part of business is Iso business, so we can say so.
- Rohit Sinha:** If you can say that this Isostatic segment what would be the margin in this particular segment?



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- Kamal Sarda:** I think individual product wise margin I cannot give.
- Moderator:** The next question is from the line of Sagar Shah from Neha Securities. Please go ahead.
- Sagar Shah:** My another question would be as you have started to cater the mini-mill segment, so what has been the response over there and are we able to crack it? What is the overall response in the mini-mill segment?
- Kamal Sarda:** The response is quite encouraging.
- Sagar Shah:** Any further guidance like what would be the further sales and what margin in that segment, what is exactly?
- Kamal Sarda:** I cannot comment. As I mentioned in my last thing I will not be able to comment on the individual margin.
- Sagar Shah:** Just a follow-up question like are we looking out for any inorganic opportunities going forward?
- Kamal Sarda:** We are always active in that market. We have had in past 4 or 5 acquisitions, so we are on look-out.
- Sagar Shah:** Anything on the paper as of now in which you have been looking for in the recent times
- Kamal Sarda:** Nothing is there as yet to be shared. As and when it will be there we will definitely share with you.
- Moderator:** The next question is from the line of Harsh Shah from Harsh Capital. Please go ahead.
- Harsh Shah:** I had only one question relating to the debt of the company. The debt of the company has increased by approximately Rs. 30 crores, so just wanted to check what are the reasons for the same and what are the plans going forward with respect to the debt?
- Kamal Sarda:** The debt have gone up because of increase in working capital. As we mentioned that our debtors have gone up so definitely the borrowings in the working capital has gone up. Plus we have also borrowed some money against the expansions in Hofmann.
- Harsh Shah:** And what are the plans going forward or some outlook for FY19-20?
- Kamal Sarda:** This is a small debt, our debt-to-equity; debt-to-EBITDA is hardly anything. If you look at our net debt, net debt is only Rs. 16-17 crores. We have a cash which is there in the book. We can repay that anytime. It's a very small thing.
- Moderator:** The next question is from the line of Udit Bokaria from Catamaran. Please go ahead.



**Udit Bokaria:** I wanted to understand like in domestic you mentioned that 6% is the steel growth that you see for FY19 and 20 and when I add the top 4 players like Tata Steel, JSW, JSPL and SAIL like their capacity expansion is also similar in the 6% range, so do you expect the mini-mills also to expand at a similar rate as the larger mills, is that the overall assumption? When the steel industry is growing by 6% what do you believe would be the revenue increase of the refractory industry? Or in other terms like what's the average realization increase that you can pass through to your customers? And my third question would be to understand like what prompted you to get into the mini-mill segment like was it like new product additions or the financial health of the smaller companies have become far better?

**Kamal Sarda:** There is no smaller company in that mini-mill segment. There are definitely new entrants. We were there in this mini-mill segment in the past but by switching our focus to ISO we deviated from that. Now we are again going back to that, so there is nothing which has prompted us to do that. We have been the pioneers to bring in Slide Gate Refractories into India that is our bread and butter business. But by going to ISO we deviated, we focused more on that. We are again refocusing on Slide Gate business and we will continue to do that. Coming back to your capacity expansions in mini-mill segment, I would say that the large steel-mills and the medium-steel mills will grow much more than the mini-mill segment. The blast furnace route or EAF route will grow more than the induction furnace route. That's my assumption. There are no data available as such. But the EAF route and the blast furnace route will grow faster. But then with the growth in steel & the consumption of steel, the induction furnace business will also do good business. So I think there will be good scope of refractories there. Have I been able to answer all your questions?

**Udit Bokaria:** Just one more question and what do you believe like what has been the price hike that you have made this year and over a long 5 year period when the volume production would be let's say 6% but what would be the average price increase in the industry?

**Kamal Sarda:** I would take this question in a different way. If you go to the last 10 years the refractory business in India though the steel production has gone up significantly but if you look at the volume, business has not gone up significantly. It's only the quality of refractories which goes up, so just increase of volume does not mean that we will get more margin. It's only the quality of refractories improvement will give you the extra value addition. On the quantity front of refractory and the price increase and all, these are all hypothetical questions, difficult to answer. I'm not saying I will not be able to. The price increases yes, the steel industry is willing to give us price increase. Lot of places we have got, lot of places we are in advanced stage of talks for prices increase.

**Udit Bokaria:** If I have to put in another way, in the last 10 years like the steel production growth rate has been 5% and what do you believe would be the refractory industry growth rate, overall?

**Kamal Sarda:** There are hardly any authentic data available in this. Very difficult to get authentic data.



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- Udit Bokaria:** Do you believe that with the entrance of maybe much more larger players like there has been talks for acquisition of Essar Steel by Arcelor, so post that will more consolidation in the industry happen or how will their expansion route be in India, Arcelor Mittal and other big players if they plan to come in India?
- Kamal Sarda:** Arcelor Mittal has been trying to enter into India for the last 15 years almost. If I'm not wrong 10 to 12 years definitely they were in very advanced stage of talks with Orissa Government to put up a 10 million tons plant, then Jharkhand Government they signed an MoU with and entered into. They have been interested in India for last 10-12 years. They thought that Greenfield is difficult so to enter through acquisition route will be an easier route for them. So I think with that they will enter and they have been turnaround experts. So Essar has the capacity of 10 million tons, presently they are operating less than about 5 million tons, so there is enough scope in Essar only to reach 10 million plant. But having said that this large players who come in they come in with lot of expertise to run large steel-mills, so I think it will be good. It will be very good for India.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Kamal Sarda for his closing comments.
- Kamal Sarda:** Thanks a lot for the wonderful session and I hope I have been able to answer most of your queries and we look forward to your participation in the next Earning Call. For any queries, you may contact our Investor Relation Advisors, Strategy Growth Advisors. Thank you all and have a nice day.
- Moderator:** Thank you. Ladies and gentleman, on behalf of IFGL Refractories that concludes today's conference. Thank you for joining us and you may now disconnect your lines.