



**“IFGL Refractories Limited
Q4 FY2019 Earnings Conference Call”**

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Moderator: Good day ladies and gentlemen and very warm welcome to the IFGL Refractories Limited Q4 FY2019 Earnings Conference Call. This conference call may contain certain 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 the operator by pressing “*” then “0” on your touchtone phone. Please note, that this conference is being recorded. I am now glad to hand the conference over to Mr. Kamal Sarda, Chief Executive Officer, IFGL Refractories Limited. Thank you and over to you Mr. Sarda!

Kamal Sarda: Good afternoon everyone. On behalf of IFGL Refractories Limited, I warmly welcome you all to Q4 FY2019 and full year FY2019 Earnings Conference Call. I have with me SGA, our Investor Relation Advisors.

I hope you all have had the chance to go through the investor presentation which is uploaded on the stock exchange. I will give you a brief on the industry update.

As per the World Steel Association, the global finished steel demand is expected to reach 1,752 million tons in 2020 from 1,712 million tons in 2018. This is as per calendar year. That is a growth of 1.3% and 1% in 2019 and 2020 respectively. However, uncertainties surrounding trade policies, volatility in the financial markets and China’s deceleration could pose downward risk to this forecast.

Steel demand excluding China is expected to grow at 1.7% in 2019 and 2.8% in 2020 to reach 917 million tons. Steel demand in developing economies excluding China is expected to grow faster at 2.9% and 4.6% during the same period to reach 499 million tons in 2020.

Demand in China is expected to increase by 1% in 2019 and in the U.S. it is expected to increase by 1.3% in 2019. These are all World Steel Association figures.

In 2017-2018, steel demand in US benefited from the strong growth of the economy driven by the government laid fiscal stimulus, leading to high confidence and a robust job market. In 2019, the US growth pattern is expected to slow with the waning effect of a fiscal stimulus and a monetary policy normalization.

Now I will come to the Indian market. India’s demand was 96 million tons of finished steel in 2018. It is expected to go up by 7.1% in 2019 to 103 million tons and further by 7.2% in 2020 to 110 million tons. The demand scenario in India is expected to improve on the back of the stable government and consequently higher government spending on infrastructure, robust activity, and downstream manufacturing sectors and rapid urbanization.

Also many states in India are expected to develop automotive and ancillary industries to be a global auto hub for small cars with a focus mainly on exports.

Lastly, some states are also expected to strengthen their mechanical machinery sectors. All these factors point to a high potential for steel demand growth in India.

I will move on to the financial performance for the FY2019. Consolidated FY2019 total income was 946 Crores versus 840 Crores in FY2018 up by 12.7% YoY. EBITDA was 114.5 Crores as against 110.3 Crores up by 3.8%.

EBITDA margins for FY19 were 12.1% vis-à-vis 13.1% during the previous financial year. Goodwill write off as you all know, it is Rs.26.8Crores for FY2019 and FY2018.

PAT was 50.5 Crores compared to 47.1 Crores up by 7% YoY. PAT margins are 5.3% in FY2019 and 5.6% in FY2018 . Cash profit was 95.1 Crores in FY2019 as against 92 Crores in FY2018 which is 3.4% higher.

On a standalone basis, our total income was 483 Crores up by 8.5%. EBITDA was 75.5 Crores ,it is almost similar to the last year's.

EBITDA margins were 15.6%, again goodwill write off was in the standalone books of Rs. 26.8 Crores.

PAT was 26 Crores in FY2019 as compared to 22.6 up by 15%. PAT margins are 5.4% in FY2019 compared to 5.1% in FY2018. Cash profit was 64.3 Crores which is very similar to FY2018.

Coming to the International businesses, EI Ceramics our US subsidiary's total income in FY2019 were \$19.8 million, showing a growth of 18% on YoY basis. EBITDA was \$2.9 million posting a growth of 14% and the margin of 14.7% while PAT was \$2.2 million with the margin of 11%.

Monocon Group our UK subsidiary for FY 2019, reported an income of 28.8 million pounds, a growth of 12% YoY. EBITDA was 2.2 million pounds, growth of 8% with the margin of 7.5%. PAT grew by 8% to 1.5 million pounds with the PAT margin of 5.3%.

For Hofmann Ceramic, the total income for FY2019 was 10.5 million Euros. The turnover increased by 5% on YoY basis. However EBITDA and PAT were slightly negative for the year.

This is the overall financial performance, I will be happy to take 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 Vinay Menon from Monarch Network. Please go ahead.

- Vinay Menon:** What will be the size of the capacity for the Kandla Brownfield expansion and when will it come on stream?
- Kamal Sarda:** We are targeting a different product segment than what we currently have, we are talking about 2000 tons per month which is 24000 tons per annum and I am expecting that to go on production stream by this year end March 2020.
- Vinay Menon:** In terms of utilization, what will we be targeting for FY2020 because it will come by FY2020 onward?
- Kamal Sarda:** I think that will be the first year because these products, we are now for the very first time going in for new product range which is bricks. I think FY2019-2020 would be a year when we will do extensive trials with various customers. I think we should be touching around about 30%-35% levels.
- Vinay Menon:** This Kandla expansion will target mainly for exports or for the domestic market Sir?
- Kamal Sarda:** That will be mainly for exports.
- Vinay Menon:** For the Vizag Greenfield, what products are you trying to bring there?
- Kamal Sarda:** There will be combination of products. Again, we are talking of bricks. We are talking of some monolithics. We are talking of some special precast shapes, so that is the plan as of now. I think may be in 2-3 months we will be finalizing the plan when we will start the construction activity there.
- Vinay Menon:** Couple of questions on the balance sheet, investments have gone up by 46 Crores this year on 13 Crores, so anything specific which has been added there?
- Kamal Sarda:** No, this could be the fixed deposit I think.
- Vinay Menon:** So, then the run rate will be the same Sir for the next year or two?
- Kamal Sarda:** We will be targeting that or to improve it.
- Vinay Menon:** In terms of Hofmann, do you expect it to breakeven in FY2020?
- Kamal Sarda:** Yes, we have taken lot of steps for price increase, for stabilization because we have invested lot of money there last year. I think we are now under control, so we hope this financial year will be able to see the benefits.
- Vinay Menon:** One last question, so far EI Ceramics, we saw another margin decline in Q4, so any reason or kind of revised in FY2020?

- Kamal Sarda:** The overall margin has improved. It will be a small change because there could be a small blip here and there, but overall I think we will be able to improve these margins once we are talking of higher utilization of capacities there.
- Vinay Menon:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ankit Agarwal from Arc Capital. Please go ahead.
- Ankit Agarwal:** Thanks for the opportunity. So my first question, what is the outlook do you have for the coming year in terms of demand?
- Kamal Sarda:** I think I mentioned in my speech that the domestic steel is going to grow up by 7% CAGR. We are talking of increase by 7% in 2019 another 7% in 2020. You have the National Steel Policy in place, which is also talking of 7% CAGR growth till 2030. I see next 4-5 years to be quite good.
- Ankit Agarwal:** Sir also in terms of the competition like how do we plan to outpace them?
- Kamal Sarda:** The competition is always good. There is nothing called outpace or something like that. We have always grown if you see our last 7 or 8 years, the topline growth barring initial 2010 or something. I think we have grown more than the steel industry growth.
- Ankit Agarwal:** Ok and the outlook in terms of the raw material prices?
- Kamal Sarda:** Prices are getting more or less stable barring couple of raw materials which have gone up, couple of raw materials which have gone down, but now one good thing is availability of raw material is not a challenge. The raw materials are available, may, some raw material prices are going up, some going down, but I will say this is the very regular phenomenon.
- Ankit Agarwal:** Just sticking with raw material prices, Sir just a question that how much percent of it is imported from China?
- Kamal Sarda:** Out of the total raw material, I think we would be importing almost close to 40% from China.
- Ankit Agarwal:** That is it from me. Thanks a lot.
- Moderator:** The next question is from the line of Chintan Mehta from B&K Securities. Please go ahead.
- Chintan Mehta:** I have two questions pertaining to quarterly and the yearly numbers and your outlook as well. Sir, we have seen a 9% growth in this quarter year on year and 6.5% quarter on quarter. If I take it on a whole year basis, it is 12.7% sales. Sir we want to understand that as we are already in terms of capacity utilization, almost full, so is it safe to assume that we have taken certain price hikes in this quarter versus the last quarter, but the price hike was not enough in terms of what the raw material prices have increased, so do you see kind of lag effect in this? **Kamal Sarda:**

There will always be a time lag between the raw material price hike and the actual sales price hikes. That is number one point and that will also be subjected to the competition scenario. I never said that we are at 100% capacity utilization. We are at 70% on an average.

Chintan Mehta: So to break this up as a growth, so it is mainly driven by volumes or it was any kind of price hike was there in this quarter?

Kamal Sarda: It will be a combination of both.

Chintan Mehta: It is possible to break down Sir?

Kamal Sarda: We do not do it. We are a tailor made product. We will not see like cars that we roll out 100k Swift. We know how much price we have. In our case, it will be very, very difficult.

Chintan Mehta: In April, RHI has gone ahead and increased the prices, all over its product ranging from 5% to 20%-25%, do we expect the same quantum and what kind of price hikes actually?

Kamal Sarda: They sent out a letter but how much of that is implemented is something which is not known.

Chintan Mehta: Do you think that range is viable and RHI being one of the integrated players and they are asking for this kind of price hike, so they are being one of the largest players, so would not be that?

Kamal Sarda: Sending out letters has got two objectives. One objective is to look for a price increase. The second objective, which is more important than the first objective is to stop any kind of price reduction. Let us see what happens, it is too early to say.

Chintan Mehta: That is it from my side. If I have any other question I will get back in queue Sir.

Moderator: Thank you. The next question is a followup from the line of Vinay Menon from Monarch Network. Please go ahead.

Vinay Menon: In terms of contracts, has there been any contracts which have been revised in April because it seems we are the financial year ending company, so are there any contracts revised in April or something, price hikes which needed to be passed on have been passed on probably in the April?

Kamal Sarda: It is easier said than done. It is a competition market. It is not that we can pass on one-on-one price increase to the customer, so it is very difficult to say.

Vinay Menon: In terms of gross margin, do you see it bottoming out in Q4 or you think the pressure could still continue in a FY2020?

Kamal Sarda: I think Q4 could be an exception.

- Vinay Menon:** We have done gross margins over around 54% also in Q2 only. can you give us like standard average which we could look at gross margins coming at FY2020?
- Kamal Sarda:** As I said Q4, you cannot take that Q4 as a normal quarter. Further this will improve from there only.
- Vinay Menon:** Sir, are you planning any capex for any of the subsidiaries?
- Kamal Sarda:** Nothing very substantial as of now.
- Vinay Menon:** In terms of acquisition, anything happening on that front?
- Kamal Sarda:** Nothing to share as of today.
- Vinay Menon:** Thank you Sir. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Chintan Mehta from B&K Securities. Please go ahead.
- Chintan Mehta:** Thanks for taking my question again Sir. I just missed out on the first one with regards to growth from here on, if you have to maintain the EBITDA margins, what are the strategy going ahead you said about increasing competition or intense competition. Sir, there are many strategies where competitors are taking a route where they are trying to introduce 14%-15% new product lines every year and trying to have a niche in the market, someone is trying to go for a raw material integration to protect their margins. So, for IFGL what could be the strategy going ahead to protect the margins?
- Kamal Sarda:** We are a small company compared to the companies which you are talking about. Our speed of response is much higher. Our penetration, our reach to the customer is much faster compared to anyone else. I am not saying that we have a raw material source, I am not saying that we can go and simply say that you will increase the prices by 10%, it is not so easy neither for us nor for the large so called very, very large player. It is a market driven thing. They make some money more because they keep on introducing certain patented new things like we are a big name in the market, so this thing is the continuous and ongoing thing, so they will keep on putting the pressure and we will keep on maintaining that pressure. It is both ways, it is a counter way. We go and eat away their market share. They will come back and say that okay to protect ourself, we are introducing a new product. So that is a regular sort of a feature.
- Chintan Mehta:** It means we would position ourselves as one of the most affordable refractory, is it right way of looking at it Sir?
- Kamal Sarda:** With same quality and in a cost-effective manner.

- Chintan Mehta:** That answers a lot of strategy . Thanks a lot Sir.
- Moderator:** The next question is from the line of Priyanka Singh from Atidhun Securities. Please go ahead.
- Priyanka Singh:** Good afternoon Sir. I had a few questions. You have mentioned in the past that the company has been trying to enter the mini mills segment, so on this how successful you have been so far?
- Kamal Sarda:** I think we have been quite successful. We are going strong I would say, I will not give you any more details of that, but we are going very strong in that.
- Priyanka Singh:** Also, the inventory days, that seems to have gone up by around 20 days, so can you explain on the same?
- Kamal Sarda:** One of the major reasons was, if you recollect from April 1, 2019, there were new revenue recognition standards which came into place, AS-115. So, based on that there was certain revenue which we have to derecognize as revenue and the cost of that sales was taken to inventory. That is why inventory has gone up.
- Priyanka Singh:** Is this likely to be seen in the next quarter also?
- Kamal Sarda:** Very, very similar barring the changes incremental or decremental, which happened in the quarter.
- Priyanka Singh:** On the new client side, how many have we added for FY2019?
- Kamal Sarda:** It is continuous process. I do not have that record, but continuous process, some new customer come in, some old customer goes out. It is a competition scenario like we have added this year Bhushan Steel which has been taken over by Tata Steel. That is a pretty large new customer. Last year, we have taken the JSPL, Angul, there will be some new customers which will keep on coming.
- Priyanka Singh:** That is helpful. Thank you.
- Moderator:** Thank you. The next question is from the line of Rohan Shah, an Individual Investor. Please go ahead.
- Rohan Shah:** Good afternoon. Sir, I have two questions. First one is on the increase in interest cost, so our total borrowings have come down, but our interest cost is going up, so any reason for that Sir?
- Kamal Sarda:** I do not think there is any major reason for that. Our borrowings may have been stable, but what you have to also understand is that as per the accounting presentation income is shown separately and the expenses shown separately. So, we have lot of fixed deposits. So, if you look at the net debt, we are almost virtually zero debt or may be a positive cash scenario we have overall. Just the debt has been there and also corresponding cash is there. Income is booked separately and the

expenses book separately. There is no incremental debt this year. There is no new debt which came in this year.

Rohan Shah: My second question is can you throw some light on your Europe business and your outlook on the same?

Kamal Sarda: You know Europe did well. Monocon UK consequently did quite well. I would say business is doing good there, barring I think very recent there is a bit of slowdown, so Q1 of this financial year in Europe will be slowdown. Hofmann last year was not so good, so we had negative margins there. We hope that this year, we will be able to reverse it and come back to a positive position, but overall Europe as of now looks to on a bit of a slow path, but let us see after the completion of Brexit what happens.

Rohan Shah: Just a follow up on that, so for the German subsidiary, do you have any plan to dispose it off or something like that because it is not generating more cash?

Kamal Sarda: No plans as of now.

Rohan Shah: That is it from me. Thanks.

Moderator: Thank you. There are no further questions. I now hand the conference over to Mr. Kamal Sarda for closing comments.

Kamal Sarda: Thank you everyone for participating in this call. I hope I have been able to answer to most of your queries and we look forward to your participation in the next quarter. If you have any queries, you may contact our Investor Relation Advisors, SGA. Thank you all, have a nice day.

Moderator: Thank you. 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.