



“IFGL Refractories Limited Q2 FY-17 Earnings Conference Call”

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Moderator: Good day Ladies and gentlemen and welcome to the Q2 FY17 Earnings conference of IFGL Refractories Ltd. This conference call may contain forward looking statements about the company which are based on the belief, 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, for the duration of this conference call, 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 now hand the conference over to Mr. Kamal Sarda from IFGL Refractories. Thank you and over to you sir.

Kamal Sarda: Thank you. Dear friends, on behalf of IFGL Refractories Limited I warmly welcome you all to the earnings call of quarter 2 FY17 Financial Results of our company. I have with me today, Mr. Rajesh Agarwal - Company Secretary & SGA our Investor Relation Advisors. I hope all of you have received the Investor Presentation and have had a chance to go through the same. Would like to just brief you on the industry update, we have witnessed slowdown in the steel production in China in the quarter gone by; this was also evident from the near 22% fall in their exports. This has led to a rebound in global production, helping local manufacturers. The protectionist measures in many countries and USA is helping local steel production immensely. In the backdrop of this, we are also witnessing muted demand prospects due to slow confidence from the industries. In India, we continue to expect the infrastructure push to drive steel growth. Government's proactive approach to create infrastructure across segments, augers well for steel company and therefore the refractory industry as such. For the quarter ended 30th September 2016, IFGL reported consolidated total income of Rs. 194.1 crores, EBITDA was Rs. 30.1 crores, a growth of 92.9% Y - on- Y. Even after including the one off, we experienced last year on account of Monocon we reported good growth. Profit after Tax came in Rs. 17.8 crores with a margin of 9.2, consolidated earnings per share was recorded at Rs. 5.16 per equity share. For H1 FY17 our consol income stood at Rs. 376 crores with an EBITDA of Rs. 51.7 crores, corresponding in a margin of 13.7%. PAT stood at Rs. 27.8 crores with margin of 7.4%. Now I will go into the individual performance of each of these companies. Monocon group, our UK subsidiary reported a total income of GBP 6.41 million for quarter 2 and GBP 11.88 million for H1 FY17. Our approach towards engineering and new product development is aiding our performance during challenging times in the UK, wherein we achieved an EBITDA margin of 15.6%, with a PAT margin of 12.2% for quarter 2 FY17. Quarter 2 was a better quarter for us. Hofmann Ceramic, our German business reported an income of €2.47 million for quarter 2 and €5.06 million for H1 FY17. EBITDA stood at €0.22 million for quarter 2 and €0.5 million for H1, respectively. PAT was recorded at €0.13 million with a margin of 5.1% for quarter 2 and €0.29 million with a margin 5.8% for H1. EI Ceramic, our USA ISO business is a traditionally high margin business, with the safeguard measures in place to protect domestic steel industry, we have witnessed better performance. We have surpassed the profitability level of FY16 in H1 FY17. Company reported an income of \$4.4 million for quarter 2 and EBITDA of \$0.8 million with a margin of 18.5% for quarter 2. PAT was recorded at \$0.5 million for quarter 2 with a margin of 11.3%. For H1 FY17, the total income stood at \$9.13 million with a \$1.6 million and

margin of 17.5% and PAT of \$0.97 million with a margin of 10.6%. IFGL exports, our Gujarat Company focusing on export market and operating from Kandla SEZ, reported record profitability in margins. Income stood at Rs. 19.4 crores for quarter 2 with an EBITDA of Rs. 5.33 crores and a margin of 27.5% with PAT recorded at Rs. 4.21 crores with a margin of 21.7%. For H1 FY17, income stood at Rs. 35.42 crores with an EBITDA of Rs. 9.49 crores and a margin of 26.8% and PAT of Rs. 7.28 crores and a margin of 20.5%. India business standalone, standalone income stood at Rs. 82.19 crores during quarter 2 with an EBITDA of Rs. 6.23 crores and a margin of 7.6%, profit after tax was recorded at Rs. 2.64 crores for quarter 2 FY17. Exports from India, for few product categories is slow, which has impacted our export revenues. Overall, we have witnessed increased local production in US showing good performance. IFGL exports with its Isostatically press refractory continues to do good business. In Monocon, we are continuously re-engineering our product basket to overcome these challenging times. In Germany, we witnessed a stable business. This is all from my side; I shall now leave the floor open for any questions and answers, I will be happy to answer. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: Sir this EI Ceramics has seen good improvement, so you said that Chinese exports have come down that is leading to a bit of utilization level. So this EI Ceramics mainly caters to EF Furnaces or is it to glass furnace as well?

Kamal Sarda: Its major business is into EF, it is EI Ceramics. It mainly caters to EF but now gradually with the capacity expansion we have had, we are also entering into the steel belts with a BOF.

Ashutosh Tiwari: So, the growth that you have seen is mainly coming from the new business or is it the traditional EF also is doing well?

Kamal Sarda: It is both.

Ashutosh Tiwari: So, are you seeing a trend of increase utilization in the EF furnaces over there?

Kamal Sarda: Yes, as I said it is both, the new businesses as well as in the existing business there has been a marginal quantity growth, volume growth also but in the BOF business we are just trying to enter. So, it may take about one or two years to really fully capture or not fully capture, get into a sizeable market share there.

Ashutosh Tiwari: In which segments, you said?

Kamal Sarda: The BOF segment, the integrated business segment.

Ashutosh Tiwari: So, what would be utilization level at the US facility, EI Ceramics?

Kamal Sarda: See I think today we could be about 60%, 65% level with the enhanced capacity.

- Ashutosh Tiwari:** And what would be the utilization level in other places like IFGL exports and all other facilities?
- Kamal Sarda:** IFGL exports with the previous capacity, we were running more than 100% capacity and IFGL in Isostatic we run at about 75%, 80% capacity rest all places, mostly it is 50%, 55%.
- Ashutosh Tiwari:** So, in the near term, there is no need for CAPEX per say?
- Kamal Sarda:** I think we mentioned in the past that we would go in for another capacity expansion in IFGL exports. That plan will happen possibly once we complete this capacity utilization.
- Ashutosh Tiwari:** So, can you throw some light on the CAPEX numbers for FY17 and FY18?
- Kamal Sarda:** Can we give some chance to other people to come to the queue because I have a limited time to answer? I am sorry to say that. You can write this to Shogun or on the SGA, I will answer all your queries.
- Moderator:** Thank you. The next question is from the line of Subhankar Ojha from SKS Capital and Research. Please go ahead.
- Subhankar Ojha:** What will be the impact of this IFGL exports merger with IFGL?
- Kamal Sarda:** Impact would be that you know, in IFGL exports 51% is held by IFGL Refractories and rest 49% is held by Mr. Bajoria and the Japanese which is taken out as a minority interest. So with the merger, the minority interest take outs, everything will be a part of the total profitability which will show. So effectively, the EPS and PAT would show to that extent, the higher figures.
- Subhankar Ojha:** Sorry, it is going to be an EPS accretive, I mean overall it is going to be good for the shareholders, right?
- Kamal Sarda:** Yes.
- Subhankar Ojha:** Secondly, if you can share some directional view in terms of what is the outlook for our H2?
- Kamal Sarda:** See H2 with the new scenario coming into India, I think personally speaking, IFGL will not get affected as such but the induction furnace route will get affected because most of the businesses were a non-traditional type of business. For IFGL, it would be more or less I would say a very similar thing in H2 also.
- Moderator:** Thank you. The next question is from the line of Rukun Tarachandani from Kotak Asset Management. Please go ahead.
- Rukun Tarachandani:** What is the status of the merger and if you can give any timelines by when you expect it to complete?

- Kamal Sarda:** Merger we have got all the approvals from the secured lenders and we have filed a petition for IFGL exports in the Calcutta High Court; that is the status as of now. The timeline which we have kept for ourselves to complete everything before March end but the effective date of merger still stands remain as 1st April, 2016. As of now more or less, we are on schedule as per the timelines which we have fixed for this.
- Rukun Tarachandani:** We are almost half way through this quarter as well; say if you can say how the demand has been this quarter across different regions, what is the demand environment that you are looking at?
- Kamal Sarda:** More or less, I think it is very flat compared to quarter 2; it will be very similar except in US it could be a bit low. US has shown again a demand contraction primarily some maybe stocking issue or something like that. So quarter 3 in US would be slightly slower than quarter 2 but rest all the places, both in India and overseas, other places I think the demands would be flat.
- Moderator:** Thank you. The next question is from the line of Bhalchandra Shinde from Anand Rathi. Please go ahead.
- Bhalchandra Shinde:** Regarding our profitability in Monocon group, I would like to know our relatively EBITDA margins are much better than whatever we were having earlier also on the peak time but relatively are those sustainable, means why exactly there was so much improvement in the margins in Monocon group?
- Kamal Sarda:** There are two things which you will have to understand; last year in H1 we had a write off, if you recollect or maybe you can go back to the records, we had a write off of one steel plant in UK closing or rather a mothballing, okay that was one write off which we took one off; £640,000 odd and Monocon is traditionally, you know its major profit comes from its engineering division. So whenever the equipment business goes up, the margins go up. This quarter has been a better quarter for it because there has been a good amount of engineering sales which I do not expect in quarter 3. So quarter 3 would be bit slower than quarter 2 but H1 I think we are more or less comparable, if you exclude the write-offs.
- Bhalchandra Shinde:** Okay, but is engineering services more dependent on the CAPEX related orders or it is more related to the production activities?
- Kamal Sarda:** It is more related to CAPEX orders.
- Bhalchandra Shinde:** So how you see that demand panning out over next one to two years?
- Kamal Sarda:** It is difficult to predict but you have a right question but this year has been okay with us, for Monocon Group this year has been a decent year but again there are lot of talks going on for next year's business also. I think if these things improve from here, CAPEX will continue. See CAPEX is not only just for the sake for their improvement in quality. Now what we are trying

to do with the steel plant, is trying to join hands with them and then give this CAPEX by way of a revenue model, you know amortizing over a period of refractive supply. So that is the sweetener which we are giving in the last couple of years we have done for some plants who are not willing to do a CAPEX immediate.

Moderator: Thank you. The next question is from the line of Dhiral Shah from GEPL Capital. Please go ahead.

Dhiral Shah: My question is regarding this demonetization; Sir how do you see overall it will impact steel sector?

Kamal Sarda: It is too early to say, it is only six days but it will impact a bit of the smaller or mini steel mills or ultra mini steel mills whose business model could be dependent on taking their benefit of excise and sales tax by going through the unorthodox way of selling. So there will be some impact for those businesses, giving a benefit to the integrated steel mills but it is too early to predict any impact. I met lot of people but it is too early to predict any kind of impact of this because this has also got to do with the real consumption size also. We are only talking about the supply size, but also have to look at the consumption size, whether the consumption size has got that enough money to consume in the same quantity of steel or not, it has to be seen.

Dhiral Shah: Okay but sir it will hit a real estate sector a lot, so mini steel ..

Kamal Sarda: That is what I am saying, see I at least do not have that competency to comment on what is happening in the real estate sector but definitely it has to be think, needs to be watched for the next three to six months' time, how this will happen.

Dhiral Shah: What is your outlook for steel consumption as well as production for next year overall?

Kamal Sarda: See if you look at the World Steel Association figure, India is going to show a CAGR of around 6% and that is, I would say a modest figure but if we look at the kind of infrastructure growth which we all are feeling the government is planning to do, the steel consumption could be much higher.

Dhiral Shah: And about the world consumption?

Kamal Sarda: World consumption would be flattish. You know, you have seen these figures of, if you go through the World Steel Association website, I can only quote those figures but Europe is more or less stable, I would say now going to a more or less stable barring some countries plus or minuses. China is slowing down, you must have seen but lot of these countries like Iran, Turkey; they are in fact growing at a faster pace, Middle East is also flattish I would say.

Dhiral Shah: And Sir about the US after this election?

Kamal Sarda: Let us see, it is Trump card which we do not know. So we will have to watch. I mean it is anybody's guess but let me tell you, my gut feeling is, nothing is going to change in America if Trump comes in, other than this socioeconomic side of it, the immigrants and all those factors but the real manufacturing and the consumption sector would substantially remain the same.

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

Kamal Sarda: Thank you, I hope I have been able to answer most of your queries. In case there are anything left, I think you can pass it on to SGA and I will be happy to answer. We look forward to your participation in the next quarter. For any other queries, please contact SGA, our Investor Relations Advisor. Thank you very much and have a nice day.

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