



**“IFGL Refractories Limited
Q2 and H1 FY2019 Earnings Conference Call”**

November 14, 2018



MANAGEMENT:

**MR. KAMAL SARDA – CHIEF EXECUTIVE OFFICER –
IFGL EXPORTS LIMITED
MR. RAJESH AGARWAL – COMPANY SECRETARY -
IFGL EXPORTS LIMITED
MR. PRATIK SHAH - STRATEGIC GROWTH ADVISORS**



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Moderator: Good morning ladies and gentlemen and welcome to IFGL Refractories Limited Q2 / H1 FY2019 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 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 now hand the conference over to Mr. Kamal Sarda, CEO, IFGL Refractories Limited. Thank you and over to you Sir!

Kamal Sarda: Good morning everyone. On behalf of IFGL, I warmly welcome you to the conference call of Q2 and H1 FY2019. I have with me today, Mr. Rajesh Agarwal, Company Secretary and SGA, our Investor Relation Advisors. We have uploaded the investor presentation on our website. I hope you have had the chance to go through it.

I will give you a small update on the steel industry. Globally as per the World Steel Association, the global crude steel production rose by 5.4% on Y-on-Y basis reaching 1347 million tonnes for the period January to September 2018. India produced 75 million tonnes, which is an increase of 6% on year-on-year during the same period.

India is close to dethroning Japan and will become the third largest producer in the world and also close to overtaking US in terms of steel consumption. China produced 700 million tonnes, which is about 7% increase on a Y-o-Y basis. North America also posted as 3.4% growth in production on yearly basis whereas Europe rose by 1.3% during January to September. As per WSA global steel demand is expected to touch 1700 million ton by 2019 on the back of demand driven by developing economies like India, Brazil, Mexico, Russia and other due to increasing infrastructure and construction activity.

Now the Indian update, domestic steel industry is expected to continue a strong performance as India's consumption is expected to grow at higher rate as compared to other top steel consuming nations in the world. The domestic consumption is expected to touch 100 million ton plus by 2019 from 89 million in 2017. India is expected to surpass US in terms of steel consumption by the end of 2019, thereby almost becoming the second largest producer beating Japan also. Government of India's ambitious plan to 300 million metric ton of production capacity by 2030 low consumption per capita, which is also going to increase from almost 60 to 150, fresh capital expenditure resolution of all NCLT cases are also expected to give further boost to the steel sector. The global steel demand is expected to be on an uptick along with sustained strong domestic demand, the outlook of refractory sector also remains very positive and we expect to benefit from the same.



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Coming to our financial performance for Q2 and H1 FY2019, consolidated performance in H1 FY2019, our total income stood at Rs.459 Crores up by 15% year-on-year. For Q2 FY2019, the total income grew by 10% to Rs.220 Crores on Y-on-Y basis. EBITDA of H1 FY2019 was Rs. 63 Crores as against Rs. 53 Crores in FY2018. EBITDA margin was 13.7% as against 13.3% in the corresponding period. EBITDA for Q2 was Rs. 31 Crores showing a growth of 13.5% on year-on-year basis with margin standing at 14.2% during the quarter as against 13.7% in Q2 FY2018.

Goodwill write-off was about 13.4% in the present half year, PAT was Rs. 29 Crores in H1 whereas it was Rs. 14 Crores in Q2 FY2018 thereby posting a growth of 41% on year-on-year basis, PAT margin was 6.4% in H1FY19 as compared to 5.2% in H1FY18. Cash profit was Rs. 53 Crores in H1 FY2019 as against Rs. 49 Crores in H1 FY2018 showing a growth of 9% on year-on-year basis. Cash profit for the current quarter was Rs. 25.9 Crores whereas it was Rs. 25.8 Crores, thereby remaining flat.

On standalone performance, H1 FY2019, our total income was Rs. 231 Crores, it is up by 9% and for quarter it was Rs. 109 Crores. EBITDA of H1 current half was Rs. 41 Crores as against Rs.39 Crores in H1 FY2018, a growth of 5%. EBITDA for Q2 was Rs. 21 Crores. EBITDA margin for half year was 17.6% and for the quarter was 19.1%. Again, goodwill is written off in the standalone books only. PAT was Rs. 15 Crores during H1 FY2019 whereas it was Rs. 7 Crores in Q2 FY2019, thereby posting growth of 16% and 10% respectively. PAT margin was 6.4% in H1 FY2019 as compared to 6% in H1FY18 and 6.7% in the current quarter as compared to 6.1% in the corresponding quarter last year. Cash profit was about Rs. 35 Crores in H1 FY2019 and Rs. 18 Crores in Q2.

On our international business, a small synopsis EI Ceramics of total income for FY2018 was \$9.8 million showing a growth of 20% on year-on-year basis, EBITDA in the current half year was \$1.6 million posting a growth of 38% in the margin of 16%. PAT was \$1.1 million posting a growth of 68% on year-on-year basis with a margin of 11%.

Monocon Group, our UK subsidiary in the current half, the company reported a total income of 14.6 million GBP, which is a growth about 18% on year-on-year basis. EBITDA is 1.3 million GBP, a growth of 66% of the corresponding period with a margin to 9.1%. PAT grew by 77% in this current quarter, GBP 0.9 million with a PAT margin of 6.5%.

Hofmann Ceramics pretty low performance continues. In H1, our total income was €5.2 million though the total income grew by 8%, EBITDA was €0.02 million whereas PAT margin in the current half was negative.

This is a synopsis of the steel industry and our performance, I now invite any questions. Thank you.



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- Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Abhisar Jain from Centrum Broking. Please go ahead.
- Abhisar Jain:** Hi Sir good morning and congratulations for maintaining the strong performance particularly in the overseas operations, Sir I have seen in the PPT that you have mentioned about the next leg of expansion at Kandla, there is decent amount of capex, which has been mentioned there. So can you just please throw light on what kind of products and what is the outlook that we have for that plant now going forward?
- Kamal Sarda:** This is basically we are planning now to slowly enter into the bricks part of business also. Just to cater to our customers on a total refractory solution. That is the reason why we are expanding plus we have also been adding some capacity in precast shapes and monolithic in that to cater to our overseas customers. This is the three-product group, which we are planning to put up in our Gujarat plant as of today. This will be done in three phases. It is not going to be entirely done in one phase. We will go slowly into it maybe it will take about a couple of years time to complete this entire capex plan. The target is that in three years' time we are in descent capacity utilization of about 50% to 75% of the capacities. On a 100% capacity, our view is that we should be in a position to generate about Rs. 200 plus Crores turnover.
- Abhisar Jain:** Understood and Sir in the three phases can you give some indication on the capacities that would come in and say ton per year?
- Kamal Sarda:** See the target is about 3000 to 4000 tons. So, each capacity would add about 1000 tons per phase.
- Abhisar Jain:** It will be divided in all three products or only in phase I we will go for some specific product ?
- Kamal Sarda:** In all three products.
- Abhisar Jain:** Okay so will be concurrently doing all three products in all phases?
- Kamal Sarda:** Yes, in all three products may be some phase, some product group may completely come in one phase only.
- Abhisar Jain:** Right Sir.
- Kamal Sarda:** Like in monolithics we can do it in one phase completely, because there is not much of investment there. The bricks plant and precast we can do it in phases. But the major investment will happen in the first phase itself. The building will happen in the first phase. Major investments will happen in the first phase.
- Abhisar Jain:** And that you expect to spend over the next 12 months?



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- Kamal Sarda:** Yes, please.
- Abhisar Jain:** Right and Sir also there is mention of acquisition of land parcel at Vizag. So, can you just tell about the company's plans there and initial capex that we would have spent for the land?
- Kamal Sarda:** See this land has been allotted to us by the Andhra Government. It is about 10 acres of land. We have not made any firm plan which we can announce as of today. So, I think I would request you to wait for couple of quarters. Our first concentration would be on the Kandla expansion. This can happen post we have finalized all the equipments for Kandla expansion, may be couple of quarters we should be in a position to tell you what product group. It is again a port-based plant so it will take care of the advantages of the port because there is a lot of raw material, which is imported, lot of products which gets exported. So that is why we chose this port-based plant. A couple of quarters to give you anything concrete.
- Abhisar Jain:** Right. So basically you are indicating this is lease-based thing from the government just like Kandla plant?
- Kamal Sarda:** No it is not very similar to Kandla, Kandla is on a rental basis. This is on an outright purchase basis.
- Abhisar Jain:** Understood okay and Sir just expanding a little bit on this expansion plans so basically what we are seeing in IFGL now over the last few years and with these two leg of expansions that you are now doing that, we are effectively becoming from a production point of view more focused in the local markets because of the advantage in terms of the cost and the margin and then we look to sell those products both in export and domestic market. So does that mean that now our efforts of expanding overseas will be limited to only the opportunities which will be very, very attractive unless, until we would like to focus on the domestic leg of growth for the growing the volumes?
- Kamal Sarda:** Abhisar you have to take advantage of the cost aspect which is there in India. Whatever expansion you would do it in the overseas, overseas we have limited space available. So that is where India is becoming the focus. Second these product line which we are making, which we plan to make in India, like bricks are not made in any of our overseas operations. So this is a new product line, which we are planning to make so that is what we have obviously Indian setup is much bigger setup compared to any of the overseas setup and the overseas companies are focused on some niche products. They would continue to focus on their niche products.
- Abhisar Jain:** And Sir just one last clarification question on the overseas operations. So right now with the improved runrate that we are seeing both in US and Monocon subsidiary, what capacity utilizations are we today at in EI Ceramics and at Monocon?
- Kamal Sarda:** EI ceramics will be about 65% and Monocon, I think we should be at around 50% levels.



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- Abhisar Jain:** So basically Sir there we can obviously keep on increasing the utilization if the demand picks up?
- Kamal Sarda:** Yes
- Abhisar Jain:** In the next few years?
- Kamal Sarda:** Yes if the demand increases.
- Abhisar Jain:** We would not need much capex there except maintenance?
- Kamal Sarda:** We would not need much capex there.
- Abhisar Jain:** Great Sir that is really helpful. Thank you so much and best of luck.
- Moderator:** Thank you. The next question is from the line of Chintan Mehta from Sunidhi Securities. Please go ahead.
- Chintan Mehta:** Hi Sir first of all congratulations on a good set of numbers Sir, my question is not IFGL-related more of industrial perspective, a couple of days back we heard that Shinagawa Refractory plans to enter into India. The reason I am going to that we have a technology collaboration with one of our Japanese company already and the Shinagawa again a bit of Japanese, how do you see this competition getting into India I mean they approached you or are we refraining from because they are planning to enter into Gujarat as well so is it we are trying to approach us Sir market?
- Kamal Sarda:** Whom are they tying up with?
- Chintan Mehta:** That is what we are trying to understand Sir? Any idea how they will try to enter into Indian market Sir?
- Kamal Sarda:** Honestly I have not got these details of this news. Let me tell you one thing, see Indian market is growing, everybody will try to target the Indian market and there is a business for each and every market. If you look at over the last 10 years, you must have seen almost all the large players of the world have come and setup shops in India whether it is Krosaki whether it is RHI, they have setup the shops in India. So there is a scope for everyone, they find Indian market attractive, as I mentioned in my speech, the national steel policy of 2017 is talking of 300 million metric ton by 2030 and the government is reiterating day in and day out. I think couple of days back the steel minister has once again said it is feasible, it is possible and their targeting towards it, 300 million metric tonne for any refractory player in the world, India cannot be untouchable for them. So they have to come to India. There is a business for everyone.
- Chintan Mehta:** Right so any idea on this company as we are focused on flow control, Orient is into shapes, what is the basic characteristic of Shinagawa any idea?



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- Kamal Sarda:** Shinagawa is also a large refractory player in Japan and they will have almost all the products.
- Chintan Mehta:** All the products? So in future in Indian market with this new players coming in, the price would be the competing point or products...or technology ?
- Kamal Sarda:** Japanese can never be on a price war front. They will only come with the quality aspects, which we feel is very good because then what happens is the bottom price part of the competition is gone. People talk of only quality products and which will in turn be an advantage to us also.
- Chintan Mehta:** Thank you Sir. That is for my side Sir.
- Moderator:** Thank you. The next question is from the line of Sidhart Purohit from SMC Global. Please go ahead.
- Sidhart Purohit:** Sir just one clarification I am sorry lack of my knowledge on that. Your overseas operations which are all into only the marketing side or are also into actual manufacturing and product line?
- Kamal Sarda:** All of them are manufacturing.
- Sidhart Purohit:** Okay and even in the China one also sizeable in terms of manufacturing?
- Kamal Sarda:** Yes we do not have marketing in the subsidiary
- Kamal Sarda:** So basically they have their own setup over there to the local market.
- Sidhart Purohit:** Right Yes.
- Kamal Sarda:** One more thing just your broader comment on the longer horizon like you know last two days in the make in Odisha Conclave they have heard a lot of corporates announcing large scale expansion both I mean, commodity, including metal so you are one of the large player in that region as well as in India so your long-term horizon as kind of now where you want intend to see in terms of capacity, let us say five years down the line, we have seen Tata steel talking about their second phase of expansion and then even other players also so on a broader perspective what should be our like you know say target in terms of five years down the line?
- Kamal Sarda:** On long-term plan I will not be able to give you any kind of guidance, honestly. We have been continuously and slowly and gradually ramping up our products portfolio efficiency and capacity and when you talk of made in Odisha Conclave I was there yesterday, but then whatever announcement you see is from very, very large players, Mukesh Ambani announcing, Kumaramangalam Birla announcing, Tata steel announcing. These are very large compared to refractory industry. What I was mentioning in made in Odisha Conclave, there were large scale announcement where the media gets those announcements gets publicity. As far as IFGL is concerned, we have been gradually ramping up our capacity efficiency in Odisha and we are in



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the process of as you must have seen in our presentation also, we are talking of some investment in Odisha. We have been allotted another land in Odisha, but those compared to the announcements, will be very small, but we continue to grow.

Sidhart Purohit: Fair enough the reason I was trying to ask was now even steel companies might after a brief period as the trouble is now over, might think in getting into new phase of expansion so that is what I was trying to understand?

Kamal Sarda: They are doing, See Tata Steel as I am told, they have announced about Rs.45000 Crores investment both in Jamshedpur and Kalinganagar as well as their Bushan plant. All the three plants put together they are talking of Rs.45,000 Crores as compared to our talking about Rs.10 Crores investment in Odisha.

Sidhart Purohit: That is what I was trying to understand, are we gearing up for those kind of growth for ourselves that is what I was trying to understand?

Kamal Sarda: We will continue to grow as per the demand scenario , we will continue to put our investments. That is the reason why we are talking of investment in our Gujarat plant. We are talking of continuous investment in our Odisha plant. We have as we mentioned that we have been allotted land in Vizag. So that also in future it will come so those are all steps towards taking care of any future needs.

Sidhart Purohit: Thank you.

Moderator: Thank you. The next question is from the line of Vikas Singh from B&K Securities. Please go ahead.

Vikas Singh: Thank you for taking my questions. Sir I just wanted to understand the remaining goodwill part in our books, which we would be writing off on a yearly basis?

Kamal Sarda: The goodwill which was created on merger of two companies, which will be written-off over a period of 10 years.

Vikas Singh: But what is the remaining part Sir, I believe that out of Rs.267 Crores, we have already done away with Rs.120 Crores, Rs.130 Crores right. Is that understanding correct?

Kamal Sarda: What we are saying is whether is remaining Rs.120 Crores, but I think it is April 1, 2017 we merged these two copies so it is one-and-a-half yearly only so 26+13 it is about Rs.40-odd Crores, which has got written-off by September 2018. So you are talking of 8-1/2 years more.

Vikas Singh: Okay so why I asked because if I see the goodwill figure in your September consolidated balance sheet is Rs.120 Crores. So why there is difference?



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- Kamal Sarda:** That is different. That is goodwill which is on consolidation of the companies. The goodwill which is there as a part of merger that is a part of the asset part. You must have seen intangible assets. Intangible assets is nothing but the goodwill portion.
- Vikas Singh:** Okay understood. Sir secondly if I look at our capex and our cash flows, it is seen that our cash flow is way higher than the capex we are envisaging. So can you just tell me that what would we do with the additional cash.
- Kamal Sarda:** Some part of it will go in , investments by way of our contribution to these expansion plan plus we are looking at options available in the market. In case if we can get a good company to buy or something, but we do not have anything in hand now, the cash will lie till it is invested.
- Vikas Singh:** Okay so is that the option or is it that inorganic growth is more concentrated to Indian perspective or you are looking even in the overseas also?
- Kamal Sarda:** Both.
- Vikas Singh:** Okay and Sir just lastly I just wanted to understand the pricing of refractory, have you seen any pressure or how is that off-late?
- Kamal Sarda:** India is very price sensitive market, you will continue to see pricing pressure always, but then they are opportunities available. If you look at all the listed companies including IFGL, they have also done well despite pricing, despite input cost increasing there is a mechanism whereby we pass on some part of the cost increase. We also get some prices increases. We also improve our efficiencies by which we improve our margins. So I think these pressures would continue to remain there that does not deter us at all.
- Vikas Singh:** Sir if I may ask that in a ballpark percentage terms how the price has moved from in Q2 versus Q1 and how it is now?
- Kamal Sarda:** And this is something which honestly is difficult to share and possibly we will not like to share also?
- Vikas Singh:** Understood.
- Kamal Sarda:** But there has been some price increases.
- Vikas Singh:** Okay that is all from my side. Thank you Sir and best of luck.
- Moderator:** Thank you. The next question is from the line of Ria Mehta from Anand Rathi. Please go ahead.
- Ria Mehta:** Congratulations on good set of numbers, Sir firstly. I would like to have more insight about the overseas business like in what is the guidance we would give about Hofmann Ceramics



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subsidiary in the near future. Is it going to remain in negative figures, is going to improve or how is it in the future?

Kamal Sarda: This half it has gone negative. There are various reasons to it. Some of the products which we thought that we will be able to improve our sales did not happen, the cost pressures are there, competition pressures were there. So there is something, which is being looked at by the management very very seriously how to improve the performance there, but as of today definitely it is a cause of concern for us that we are unable to improve. We will not be able to tell you exactly but hopefully the H2 will be a black figure. We have also invested in that company further, our commitment stands to that company.

Ria Mehta: Okay and regarding other overseas subsidiaries any guidance you would like to give?

Kamal Sarda: We would continue to do well, there is no guidance that we give, in fact we do not say, it is a company's policy we do not give very detailed kind of guidance, but they would continue to do well. EI Ceramics you have seen is performing almost well, America is.

Ria Mehta: What would be the market share??

Kamal Sarda: EI Ceramics in US in their specialized product, they should be about 20% plus market share and then US is growing market as of today.

Ria Mehta: As regard Monocon Group?

Kamal Sarda: Monocon group, so far themarket share is concerned, I really do not know exactly because they operate in various markets, not only in UK or US, they operate in various market, in one of product line, which we operated exclusively in the US, we have a market share of almost 30%-35% but whereas for the other Monocon operations, they operate in various countries, not only in the UK, but also they export quite a lot of material from UK. I think more than 50% of it is exported from UK. They have various countries operations there. The market share I honestly do not have, we go by what customers we have whether we are serving the customers more or less.

Ria Mehta: Okay thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Vikas Singh from B&K Securities. Please go ahead.

Vikas Singh: Thank you for taking more questions. Sir just wanted to understand our strategy in the Hofmann Ceramics. While I see that our sales has been improving but still we are losing money there. So how do we see that things do turn around.

Kamal Sarda: Previous question I answered this. I do not know whether you missed it or...?



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- Vikas Singh:** Actually Sir I got disconnected.
- Kamal Sarda:** Okay. See the Hofmann we have had two, three issues one the input cost increases, couple of products lines we thought will perform well, but it did not. So some of things have affected Hofmann's performance. But hopefully the H2 we will be in position to really come back to a black figure. But as of today honestly, it definitely is an issue.
- Vikas Singh:** Okay and Sir do we expect our standalone EBITDA margins to go back to 18 plus levels since it was if you see that on a year-on-year perspective it was down. So any thought on that by when we can expect some margin improvement or this is the new normal for us?
- Kamal Sarda:** No EBITDA margins have improved in standalone.
- Vikas Singh:** Sir actually I was referring to PPT and the first half margin was 23% which has down to 17.6% slide no 17 Sir?
- Kamal Sarda:** Those small corrections are okay, I am talking about absolute EBITDA has gone up maybe smaller corrections could be because of that depreciation portions is very high. So that can affect I think, see it is only point 0.7% drop, it is not so significant so we should be at around, I think I have been maintaining that 14% to 16% is our normal margin so we will be around 16%, 17% margin levels always.
- Vikas Singh:** That means that in the second half, the margin can be a little lower than what we have done in first half FY2019?
- Kamal Sarda:** I do not know, we may maintain this margin, but as of today, as I said we do not give you a guidance as such, but we will try to maintain these margins.
- Vikas Singh:** Okay Sir. That is all from my side and thank you for taking more questions.
- Moderator:** Thank you. The next question is from the line of Raj Joshi from SS Securities. Please go ahead.
- Raj Joshi:** Thank you for the opportunity. I have a couple of questions, the first one is in terms of our standalone financials, our EBITDA margin has been declined by 700 to 800 bps, but the raw material cost have remained flat why this Sir, are we reducing prices to get the business?
- Kamal Sarda:** On a standalone basis?
- Raj Joshi:** Yes.
- Kamal Sarda:** The material cost has come down primarily because we export quite a lot, more than 60% is export. In the new accounting standard AS 115, there has been some revenue recognition changes. So some of the exports which we have done, which in the earlier AS 15 was accounted for as now if this new years Ind-AS 115 the sale has been reversed so you have seen the sale also



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dropped in the current quarter. So whatever sale has dropped has gone into stocks. There could be an effect because of that, but the raw material cost has remained more or less same. What happens in the stock when you value the stock, you would take the stock at the value at which it is manufactured. So that is how the WIP part if you look at, there is some bit of changes in WIP is about Rs. 27 Crores, but the material cost is almost remaining same. There is no significant drop in input cost changes.

Raj Joshi: Okay my next question is our inventory has gone up by Rs. 47 Crores at consolidated level of which Rs. 32 Crores is from the standalone basis in India. Why is there inventory buildup?

Kamal Sarda: As I mentioned to you because of Ind-AS 115 part of the dispatches which happened, exports which happened from India, not only export, but also the domestic sales which happened from India, there has been a bit of accounting change so revenue recognition has been deferred. When you defer the revenue recognition, the amount comes to stock, basically stock in transit or sale in transit or stocks, which are sold but not recognized as revenue, so maybe this impact would not be there next time.

Raj Joshi: Okay, Sir my last question is we have subsidiary in China, has the steel plant shut down impacted our business here, how is the situation here?

Kamal Sarda: In china, we mostly sell overseas from China. 90% of the product is exported out of China, only 8% to 10% is sold within the China. we have not been impacted.

Raj Joshi: Okay, thank you.

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: Thank you everyone for listening to me and I hope I have been able to answer most of your queries. We look forward to your active participation in the next quarter conference call. If you have any queries or clarifications, you may contact our Investor Relation Advisor, SGA or myself. Thank you everyone and have a nice day.

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