“Carborundum Universal Limited

Q2 FY '25 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Carborundum Universal Limited Q2 FY '25 Earnings Conference Call, hosted by DAM Capital Advisors Limited. 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 an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors. Thank you, and over to you, ma'am.

Bhoomika Nair: Thank you, and warm welcome to everyone on the 2Q FY '25 Earnings Call of Carborundum Universal Limited. We have the management today being represented by Mr. Sridharan Rangarajan, Managing Director; Mr. Sushil Bendale, Chief Financial Officer; Mr. G. Chandramouli, Advisor- Investor Relations and Mr. Denesh Kumar, Senior Manager, Strategic Planning. At this point, I'll hand over the floor to Mr. Rangarajan for his initial remarks, post which we'll open up the floor for Q&A. Thank you, and over to you, sir.

G. Chandramouli: Good morning. I'm Chandramouli. Let us start by presenting with the disclaimer clause. During this call, we will make certain statements, which reflects our outlook for the future, or which could be construed as forward-looking statements. These statements are based on management's current expectations and are associated with uncertainties and risks are more fully detailed in our annual report, which may cause the actual result to differ. Hence, these statements must be reviewed in conjunction with the risks that the company faces. Thank you.

Sridharan Rangarajan: Thank you. Good morning to all of you, and a warm welcome for our second quarter earnings call for this financial year FY 24-25. First of all, a very Happy Diwali to all of you, hope this year brings lot of wealth, peace and health to all of you and your family.

Today, I'm joined in this call by Sushil Bendale, our CFO; Chandramouli, who handles the Investor Relationship and Denesh, who handles the Strategic Planning. I'll provide an overview of the Company's performance for the quarter as well as the first half, and then we will open up for questions.

So first, to start with, I'll talk about the performance of Q2 and H1 FY '25 consolidated financial results. Consolidated Q2 was INR 1,209 crores. This is the highest quarterly sales. This was a growth of 7.6% compared to Q2 FY '24. This growth was contributed by all 3 segments.

Electrominerals contributed about 6.5% growth, Abrasives about 6.4%, and Ceramics 5.5% growth. Compared to Q1 FY '25, sales in this quarter grew by 2.1%. Electrominerals grew by 5.6%, Ceramics grew by 3.7%, and Abrasives was lower by 1.5%. Consolidated sales for H1 FY '25 was INR 2,393 crores with a growth of 3.4% compared to the same period last year. The growth was contributed by growth in Abrasives, which was at 6.4%. Electrominerals was lower by 1.6%, while Ceramics was lower by 0.5%.

Now coming to the profit before interest and tax for Q2 FY '25 was INR 154 crores. This was a growth of 9.2% over Q2 FY '24. Compared to Q1 FY '25, PBIT grew by 3.4%. So both quarter-on-quarter as well as sequential, there's a growth. PBIT margin at consolidated level improved from 12.6% in Q2 FY '24 to 12.8% in Q2 FY '25. PBIT for the first half of the year was INR 304 crores compared to INR 296 crores in H1 FY '24.

PBIT margin percentage for the first half of the year was at 12.7% as against 12.8% in H1 FY'24. Profit after tax for Q2 FY '25 was INR 116 crores, showing a growth of 13.7% compared to profit after tax for Q2 FY '24. Profit after tax for Q2 FY '25 improved by 2.6% when compared to profit after tax of Q1 FY '25.

Profit after tax for H1 FY '25 grew by 6.4% to INR 229 crores compared to H1 FY '24. PAT margin increased from 9.3% to 9.6%.

Now I'll cover the standalone performance. Standalone Q2 sales was INR 705 crores with a growth of 9.6% compared to Q2 FY '24. This growth was contributed again by all 3 segments. Electrominerals contributed about 9.2% growth, Abrasives 8%, and Ceramics 4.8%. Compared to Q1 FY '25, sales in this quarter grew by 6.3%, Electrominerals grew by 11.2%, Ceramics grew by 5.2%, Abrasives grew by 1.7%.

Standalone sales for H1 FY '25 was INR 1,369 crores with a growth of 5.1% compared to same period last year. This was contributed by growth in Abrasives and Electrominerals at 7.6% and 2.4%, respectively. There was a marginal drop of 0.8% in Ceramics segment. PBIT for Q2 FY'25 was INR 116 crores with a growth of 4.4% over Q2 FY '24. This was contributed by 8.6% growth in Ceramics and 4% growth in Abrasives over Q2 FY '24. Electrominerals PBIT was lower by 6.2% when compared to Q2 FY '24.

Compared to Q1 FY '25, PBIT in Q2 FY '25 degrew by 3.2%. PBIT of Electrominerals and Ceramics in Q2 FY '25 grew by 33.3% and 26% respectively. Abrasives were lower by 7%. There were unallocable expense of INR 17.6 crores in Q2 FY '25 compared to unallocable income of INR0.7 crores in Q1 FY '25. More details on unallocable part will be covered by Sushil later.

PBIT for the first half of the year grew by 0.9% to INR 235 crores against INR 233 crores in H1 FY '24. PBIT margin percentage to sales at standalone level was decreased from 17.2% in Q2 FY '24 to 16.4% in Q2 FY '25. The margin in Q1 FY '25 was at 18%. There was a small decrease in PBIT margin percentage from 17.9% in H1 FY '24 to 17.2% in H1 FY '25.

Profit after tax for H1 FY '25 grew by 2.2% to INR 180 crores when compared to H1 FY '24. PAT margin decreased from 13.5% to 13.1%. On a quarterly basis, PAT grew by 4.4% to INR 86 crores when compared to Q2 FY '24. PAT was lower by 7.3% when compared to Q1 FY '25. Now, I'll cover the performance of each segment.

Now to start with Abrasives. Consolidated Abrasives sales for H1 FY '25 was INR 1,095 crores with a growth of 6.4% when compared to the same period last year. Standalone business, RHODIUS and AWUKO showed good growth compared to H1 FY '24, whereas Sterling Abrasives and CUMI America had a small negative growth.

Q2 FY '25 sales was at INR 543 crores with a growth of 6.4% compared to the same period last year. This was growth contributed by standalone, AWUKO, RHODIUS and VAW. Compared to Q1 FY '25, sales was lower by 1.5%, this is largely coming out of the lower sales in AWUKO.

Standalone Abrasives –

Q2 FY '25 standalone Abrasives is grew by 8% to INR 308 crores compared to Q2 FY '24.

Industrial segment, Retail segment registered double-digit growth, while Precision was marginally lower compared to last year. The growth was mainly on account of a small negative growth in exports. In comparison to Q1 FY '25, there was a marginal growth of 1.7%. Sales in -- for H1 FY '25 was INR 611 crores with a growth of 7.6% compared to the same period last year. The growth was majorly driven by industrial, retail, while there was a small degrowth in precision. The growth in H1 FY '25 over H1 FY '24 was predominantly volume-driven growth.

I'll go to RHODIUS. RHODIUS in H1 FY '25 achieved a net sale of EUR 33.8 million compared to EUR 30.7 million in H1 FY '24. This represents a 10% growth in euro terms over the last year. There was an increase in volume, which is the predominant part. For the quarter, RHODIUS achieved net sales of EUR 16.5 million, which is 8.5% growth over Q2 FY '24 and compared to Q1, there was a lower growth of 4%, reflecting the seasonality of their business.

In H1 FY '25, RHODIUS incurred a loss after Tax of EUR 0.1 million against the loss of EUR 1.4 million in H1 FY '24. So this means the losses are coming down significantly. It is to be noted that this is after the PPA write-off of EUR 1.4 million. We expect a growth of 9% on a full year basis as against 10% what we communicated earlier in the call. We expect a breakeven on a full year basis against a small profit what we told in our previous calls. Please note that this would also mean a significant loss reduction compared to the last year. It is to be noted that these numbers are after the PPA write-off of EUR 2.8 million on a full year basis.

I'll move to AWUKO. AWUKO achieved a sales of EUR 5.3 million for the first half of the year. This is a growth of 18% compared to the last year same period. For the quarter, AWUKO delivered a sale of EUR 2.2 million, which is 17% growth over the same period last year. Sequentially, it was lower by 26% compared to Q1 FY '25. The losses before tax on H1 basis are at similar level as well as the H1 FY '24 at EUR 2.3 million. Operationally, AWUKO improved their performance compared to the last year. We earlier communicated that the AWUKO would increase their yearly sales by EUR 8 million to EUR 10 million.

We also said that AWUKO would breakeven at EBITDA level. and have a small loss of EUR 0.7 million to EUR 1 million by FY '25. Currently, we feel at full year AWUKO would increase their sales around 2 million. We expect an EBITDA loss of around EUR 4.5 million. The reason for not achieving the planned sales are: 1. product portfolio change to more converted products and less jumbo rolls. This resulted in capacity constraints, higher lead times and costs. 2. Focus of customer business and target market did not develop as planned, 3. delays in achieving acceptable levels of quality. We are working on a strategy to improve AWUKO's performance. I will share more details in the next 6 months. The current, Q3 and Q4, we have fully covered, and I have explained. Beyond that, I will cover in the next 6 months when I come and meet you.

Now I'll cover the performance of profit before interest and tax. Consolidated Abrasives PBIT for the first half of the year grew significantly to INR 90 crores from INR 68 crores in H1 FY '24, representing a growth of 31%. This resulted in margins improved being from 6.6% in H1 FY '24 to 8.2% in H1 FY '25. This was mainly due to standalone PBIT growing at 13.3% and RHODIUS delivering a small PBIT compared to negative in H1 FY '24.

Consolidated PBIT for Q2 FY '25 was INR 34 crores with a degrowth 7.1% compared to Q2 FY '24. This was due to PBIT degrowth in Sterling Abrasives, CUMI America and AWUKO. While compared with Q1 FY '25, the PBIT was lower by INR 21 crores. This was mainly due to lower PBIT in AWUKO by INR 5 crores, RHODIUS by INR 9 crores and Standalone by INR 4 crores. AWUKO was due to lower sales, RHODIUS was due to lower sales, product mix and the cost push.

I'll move to Electrominerals. Consolidated sales in H1 FY '25 was INR 783 crores, which is slightly lower by 1.6% compared to the same period last year. Standalone business and Foskor Zirconia showed growth compared to H1 FY '24. VAW Russia in local currency delivered similar performance compared to the last year, but had a small degrowth when converted to INR. Q2 FY '25 sales was INR 402 crores with a growth of 6.5% compared to Q2 FY '24. The growth was contributed by Standalone, VAW and Foskor.

In comparison to Q1 FY '25, sales grew by 5.6%. Standalone business and VAW showed growth, Foskor degrowth, details of which I will cover in Foskor section.

Standalone Electrominerals.

Standalone Q2 was INR 210 crores. This is the highest quarterly sales. It is a 9.2% growth compared to Q2 FY '24. This growth was aided by volume increase and higher price realisations. This growth was also because of the higher export sales.

Compared to Q1 FY '25, sales in this quarter grew by 11.2%. This growth was aided by volume increase and higher price realisation. Sales for H1 FY '25 was at INR 399 crores with a growth of 2.4% compared to the same period last year. This growth was aided by marginal volume increase and a small increase in price realisation. The other feature of the growth is higher export and volume growth in value-added products.

VAW, the operations are running well, and the capacity utilisations are slightly better compared to the last year. Sales in local currency for Q2 FY '25 degrew marginally by 1.7% compared to Q2 FY '24, which is, very small marginal degrowth and grew 1% compared to Q1 FY '25.

They delivered a profit after tax of RUB 466 million in Q2 FY '25 against RUB 413 million during the same period last year and RUB 287 million in Q1 FY '25. H1 FY '25 profits were RUB 753 million compared to RUB 836 million during the same period last year. There was no major impact on exchange rate conversion in INR in comparison to last year.

I'll move to Foskor. For the quarter, sales grew by 38% compared to Q2 FY '24. This is predominantly coming out of volume increase; however, compared to Q1 '25, there was a drop of 32%. China dropping the price has impacted the volumes. First half of FY '25 witnessed a volume growth of 26% compared H1 FY '24. However, the price realisation dropped to an extent of 17%, resulting in a net sales growth of 9%.

Foskor Zirconia in H1 FY '25 incurred a loss of INR 14.7 crores compared to a loss of INR 6.1 crores in H1 FY '24. The increase in loss is mainly on account of strengthening of the South African Rand against the US dollar in this quarter by around 10%. We have now considered the pricing pressure in the market and rolled up H2 FY '25 outlook. We feel Foskor Zirconia loss in H2 could be in the range of INR 2 crores against H1 FY '25 loss of INR 14.7 crores. Overall, the full year loss for FY '24 was INR 7.4 crores and in FY '25, we expect it could be in the range of INR 16 crores to INR 17 crores.

Now I'll cover the performance of PBIT of this segment. Consolidated PBIT for Q2 FY '25 was at INR 58 crores. This was a growth of 33% compared to Q1 FY '25, Standalone business and VAW contributed to this growth. In comparison to Q2 FY '24, it was lower by 6.4%. This was mainly due to Standalone and Foskor's PBIT.

PBIT margin at consolidated level was at 14.3% in Q2 FY '25 compared to 11.4% in Q1 FY '25 and 16.3% in Q2 FY '24. In H1 FY '25, PBIT was INR 101 crores compared to INR 136 crores in H1 FY '24. This resulted in a margin decrease from 17% in H1 FY ’24 to 12.9% in H1 FY ‘25. Standalone Electrominerals PBIT decreased from INR 46 crores to INR 38 crores. Drop is mainly due to pricing pressure in the market. The increase in PBIT loss in Foskor Zirconia to the extent of INR 8 crores, which was mainly on account of strengthening of the South African rand against dollar. VAW PBIT dropped by INR 18 crores due to the export duty, higher freight costs, etcetera. That's the broad reason for the swing.

I'll move to Ceramics section. Consolidated sales for H1 FY '25 was INR 549 crores compared to INR 552 crores in H1 FY '24. Q2 FY '25 sales was INR 280 crores compared to INR 265 crores in Q2 FY '24. The growth was contributed mainly by CUMI India and America. Compared to Q1 FY '25, sales grew from INR 270 crores to INR 280 crores, that is 3.7%. Standalone business and CUMI Australia showed growth.

Standalone ceramics. Standalone ceramics Q2 sales was INR 228 crores with a growth of 4.8% compared to Q2 FY '24. This growth was aided by volume increase and higher price realisation. Compared to Q1 FY '25 sales in this quarter grew by 5.2%. This growth was mainly contributed by higher price realisation. Sales for H1 FY '25 was INR 444 crores. This is lower by 0.8% compared to the same period last year.

Fired and mono refractories, Wear Ceramics and Metallized Cylinders business at standalone combined together grew at 14% compared to H1 FY '24. Sales were lower in Engineered Ceramics and Corrosion resistance business. Subsidiary in America on H1 basis registered a good growth, whereas Australian subsidiary was marginally better compared to H1 of the last year.

Now I'll cover PBIT of this segment. Consolidated PBIT for Q2 FY '25 was INR 80 crores. This was a growth of 23% compared to Q1 FY '25. This was contributed by double-digit PBIT growth in standalone, CUMI Australia and VAW Russia. In comparison to Q2 FY '24, there was a growth of 8%. This was mainly due to PBIT growth in standalone and VAW. PBIT margins in Q2 FY '25 was at 28.5% compared to 24% in Q1 FY '25 and 27.8% in Q2 FY '24.

Consolidated PBIT for H1 FY '25 was INR 144 crores compared to INR 155 crores in H1 '24. This resulted in margin decrease from 28% in H1 FY '24 to 26.3% in H1 FY '25. This was mainly due to standalone Ceramics. Standalone ceramics PBIT decreased by 6.7% to INR 111 crores on account of mix between industrial ceramics and refractories and product mix within the industrial ceramics.

This covers the performance section. I'll also make a quick update on recent acquisitions that we have made.

We completed the acquisition of 100% stake in Silicon Carbide Product s LLC., a refractory product manufacturer based in Horseheads at an enterprise value of $6.66 million. SCP specialises in manufacture of high-quality nitride-bonded silicon carbide products and are widely recognised for their advanced firing and forming process. This acquisition aligns with our strategic expansion plan and offers synergies in the market access, technology capabilities and raw material supply opportunities.

Using SCPs expedite in furnace design, patterning and tooling, CUMI aims to strengthen our offering in the Indian market, particularly in the critical thermal application such as power, steel, mining sectors. Additionally, we anticipate leveraging SCP's well-established customer base in Americas to introduce CUMI's products into industries such as glass, super alloys, petrochemicals, nonferrous and heat treatment.

We expect to see further synergies, including potential to supply CUMI's grade of raw materials to SCP and to jointly develop new products and technology. Additionally, this acquisition will almost double our NBSIC production capacity.

SCP closed last year that is calendar year 2023 with $ 4.2 million in revenue and $0.4 million in profit before tax with the projection to double the revenue over the next 5 to 6 years based on the current estimated growth trajectory. We believe that the identified synergies could generate an additional $5 million in annual revenue by the end of this period. We are in the process of crystallising specific synergy programs, and we'll provide a more comprehensive update of our integration and synergies in the next 6 months.

Now, I'll request Sushil to cover the PBIT margin, debt position, capex, cash flows and ROCE. Thank you.

Sushil Bendale: So first, I'll speak about the PBIT margin. On an H1 basis, consolidated PBIT margin was at 12.7% compared to 12.8% in H1 '24. This was majorly contributed by better performance in Abrasives segment.

For the quarter, consolidated PBIT margin was at 12.8% compared to 12.6% in Q2 '24 as well as in Q1 '25. Now standalone. Standalone PBIT margin for H1 '25 was at 17.2% compared to 17.9% in H1 '24. For the quarter, standalone PBIT margin was at 16.4% compared to 17.2% in Q2 '24 and 18% in Q1 '25.

Now I'll share the segment specifics. Abrasives, consolidated PBIT margins of Abrasives on H1 basis improved from 6.6% to 8.2%, mainly because of standalone abrasives margins, improving from 16% to 16.9%, and RHODIUS delivering small profit in H1 '25. For the quarter, consolidated Abrasives margin declined from 7.3% in Q2 '24 to 6.3% in Q2 '25.

The margins dropped by 364 basis points compared to Q1 '25, which was contributed by a decline in standalone margins from 17.6% to 16.1%, increased losses in AWUKO and margins moving from positive to negative for RHODIUS.

Now Electrominerals. Consolidated PBIT margins of Electrominerals on an H1 basis declined from 17% to 12.9%. The standalone PBIT margin of H1 '25 was at 9.4% compared to 11.7% in H1 '24. This drop is mainly due to pricing pressures in the market. Also, losses increased in Foskor on an H1 basis, primarily on account of strengthening of the South African Rand against USD. For the quarter, consolidated Electrominerals margins declined from 16.3% in Q2 '24 to 14.3% in Q2 '25. Standalone Electrominerals PBIT margins decreased from 11.9% in Q2 '24 to 10.3% in Q2 '25. The drop is mainly due to pricing pressures in the market.

The consolidated Electrominerals margin improved by 296 basis points compared to Q1 of '25, which was contributed primarily by improvement in margins of standalone and VAW. The standalone margins in Q2 '25 improved by 170 basis points compared to Q1 '25, mainly on account of better price realisation.

Ceramics. Consolidated Ceramics margins improved from 27.8% in Q2 '24 to 28.5% in Q2 '25. Standalone Ceramic PBIT margins improved from 26.2% in Q2 '24 to 27.2% in Q2 '25. In comparing to Q1 '25, the PBIT margins improved by 449 basis points, which was contributed by improvement in margins of standalone and CUMI Australia. The standalone margins improved from 22.7% to 27.2% on account of higher price realisation and favourable product mix.

The consolidated PBIT margins of Ceramics on a H1 basis declined from 28% to 26.3%, primarily due to standalone performance. Standalone margins decreased from 26.6% to 25% due to mix between industrial ceramics and refractories and product mix within industrial ceramics.

Now I'll speak about the debt position. There is no debt now standalone books, and total debt at the consolidated basis was at INR 103 crores at the end of Q2 '25 compared to INR 140 crores at the end of Q2 '24 and INR 112 crores at the end of Q1 '25. The debt-to-equity ratio was at 0.03 at a consolidated level.

Capex during H1 of '25, our capex investment was INR 124 crores at the consolidated level. Return on capital employed. For H1 '25, the return on capital employed at a consolidated level is 17% compared to 19% during the same period last year and at a standalone level, it is at 19.3% compared to 21.5%. For the consolidated business, the ROCE in H1 '25 for Abrasives improved from 10.2% to 12.3%, while Ceramics has declined from 51.7% to 44% and Electrominerals has decreased from 31.7% to 19.4%. For the standalone businesses, ROCE for H1 '25 for Abrasives has marginally decreased from 41.3% to 41%, while Ceramics has declined from 54.9% to 46.8%, and Electrominerals has decreased from 31.3% to 21.5%.

Now, I'll speak about the unallocable expenses. At a standalone level, the unallocable expenses in Q2 '25 were at INR 17.6 crores, which is similar to the unallocable expense in Q2 '24. In Q1'25, the unallocable income was INR 0.7 crores. This is primarily due to dividend received in Q1 '25. On an H1 '25 basis, unallocable expenses were INR 16.9 crores, lower by INR 6.1 crores compared to the same period last year, primarily due to higher interest income in H1 of '25.

At a consolidated level, unallocable expenses for Q2 '25 were INR 11.2 crores compared to Q2 '24 unallocable expenses were lower by INR14.7 crores, primarily due to higher interest income in Q2 '25, exchange loss and receipt of dividends from VAW in Q2 '25, higher project-related costs in Q2 '24 and lower spend in Q2 '25. Compared to Q1 '25, the unallocable expenses were almost flat.

On the half year basis, unallocable expenses at the consolidated level were INR 23.4 crores, lower by INR 28.2 crores compared to H1 '24, primarily due to higher interest income in H1 '25, exchange loss in receipt of dividend from VAW booked in H1 '24, which is not there in H1 '25, higher project-related costs in H1 '24 and lower expenses in H1 '25.

Now I request Mr. Sridharan to take you through the next section related to the future outlook. Thank you.

Sridharan Rangarajan: Thank you, Sushil. So I'll just make a quick overview what we said last time versus where do we stand after looking at the first half. We communicated that our full year consolidated sales could be 9% to 11% and the consolidated sales could be INR 5,100 crores to INR 5,200 crores. We maintain the same.

In consolidated Abrasives, we expect a growth of 10% as against 11% to 12% what we communicated earlier. This shortfall is mainly coming from AWUKO. We communicated during our last call, a growth of EUR8 million to EUR10 million for AWUKO. Currently, we feel that full year AWUKO could rise the sales around EUR2 million.

Abrasives India growth would be 9% to 11%, which is as communicated to you earlier. RHODIUS is doing well. In H1 FY '25, RHODIUS has delivered a growth of 11.6% in Indian rupees. We communicated earlier a growth of 10% on a full year basis can be expected. We feel it could be 9% to 10%.

We communicated about sales growth of 12% to 14% in consolidated Ceramics segment. We maintain the same. For Industrial Ceramics business in India, we communicated about a growth projection of 13% to 15%. We expect some shortfall in Engineered and Wear Ceramics segment. This would lead to around 12% year-on-year growth, 1% lower than what we communicated. CUMI Australia and CUMI America are doing fine.

Refractory, we are confident of delivering 12% to 13% growth over last year on the back of a strong order book, which is also in similar to what we communicated.

We communicated about sales growth of 5% to 6% in consolidated Electrominerals segment. We maintained the same. VAW is expected to deliver a similar performance to the last year. This is what we have planned and what we communicated to you. Growth from standalone business is expected to be about 10% growth, as said in the previous call. For Foskor, the H1 FY '25 did not go as per our plan. They were impacted due to pricing pressure in the market and strengthening of South African Rand against dollar. We expect H2 '25 to be better than H1 FY'25.

On the PBIT performance, we communicated that consolidated PBIT margins would be in the range of 13.7% to 13.8%. We expect it to drop by 100 basis points. This is mainly coming from underperformance by AWUKO in Abrasives and Foskor Zirconia in Electrominerals. We said that consolidated Abrasives margins will improve by 100 basis points in FY '25. We expect margins to be similar to that of FY '24.

Ceramic margin will be similar to that of FY '24. We maintain the same.

We said that consolidated Electrominerals margins will improve by 20 to 30 basis points in FY'25. We expect margins to decrease by 150 to 200 basis points from FY '24. This is mainly coming from standalone, which is facing cost push and price realisation pressure and Foskor Zirconia, which is facing pricing process.

On capex side, we said that we would spend around INR 350 crores on a full year basis. So far, we have spent INR 124 crores. We feel that we would be spending about INR 300 crores in FY'25.

To sum up on the whole, we expect the top line to be INR 5,100 crores to INR 5,200 crores. We expect PAT to be about around INR 500 crores.

We would be spending around INR 300 crores of capex. We will be debt free. While delivering the current business, we would have prepared a strategic plan for the future of CUMI. We will share about this more in future. With this, I will end my opening remarks and thank you all for hearing this out. We will now open up for question and answer. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. First question is from the line of Ravi Swaminathan from Avendus Spark. Please go ahead.

Ravi Swaminathan: Sir, thanks for taking my question. My first question is with respect to the Ceramics and Refractory segment. You had talked about reasonably good growth coming in for the Engineered Ceramics and Wear Ceramics, etcetera. If you could give more granular details as to which are the sectors which are driving the growth for these sub-segments as of now.

There was one large customer from whom business was impacted, how is the path to recovery over there? If you can talk about these 2 segments and also refractories, what is driving growth there? How is the demand from certain sectors like glass, carton black, steel, etcetera? If you can talk about that, that would be great.

Sridharan Rangarajan: Yes. Thank you for your question. So to start with, I would say, the customer that we had impact of slower growth is picking up, and it is the trajectory of what we communicated is very much on track. So that is in control. And as we communicated, we said that calendar year '25, which is what they would focus on, the pickup will be much more.

But right now, their trajectory is very much on track. We are traveling as per earlier communicated, no issues. As far as the growth in ceramics and refractories, all the normal sectors that we are addressing have witnessed a growth, and we are seeing robust demand for each of them whether it is cement, steel, carbon black, chemical industries, power distribution. All these sectors we have seen good demand, both in India as well as overseas which is what is driving the performance of them. So to sum it up, I think the demand drivers are largely coming from various industries that we serve.

Ravi Swaminathan: And the metallized cylinder segment should we kind of think of it as growing like a 15% CAGR kind of segment. I mean mid-teen kind of growth sustainable over 2 years, 3 years?

Sridharan Rangarajan: So, I think we guided the ceramic business growth as I summed up around 12% to 15% growth. I would expect a similar type of growth continue because see it's a mix of various products or segments which are there, whether it is wear, metallized, engineered, fired refractories, mono, prodorite business. So all put together is a basket of this. So I would assume that, that kind of a trajectory of growth should be expected.

Ravi Swaminathan: Understood. And my last question is with respect to the competition in Abrasives and Electrominerals that you had talked about in the past two quarters, three quarters, especially Chinese competition and in Abrasives competition from paint companies, etc. How do you see that panning out, is it same level, has it intensified, or has it come off?

Sridharan Rangarajan: So as far as the competition, let's focus on Electrominerals first is that I think as far as Foskor Zirconia is concerned, the competition from Chinese is severe and the pricing pressure is very much on. So that is what is pulling their sales also down as well as the impact on their margins. As far as India is concerned, I think we see that so far we are able to pass on the cost increase that we are getting to the market.

And we will have to wait and see how the second half would span from the Chinese competition. We expect they would also face a similar cost pressure because it's a global pressure that everyone is facing. So obviously, there would be their reactions to that also. But nevertheless, it is difficult to gauge how the Chinese would react, but we are working cautiously in terms of explaining things to our customers.

They understand where the cost drivers are coming from, and they are in a position to pass on the cost increase that we are getting and as far as the Abrasives, paint is a very small sector as I was also alluding to is a very specialised small sector that they were focusing on compared to the whole range of abrasive products.

I think that is continuing and probably with kind of many pressures the paint industry is going through, the focus is on their core industry than I would say focusing on the Abrasives at this point in time.

Ravi Swaminathan: Understood sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: Thank you very much for the opportunity. Sir my first question is on our Abrasive subsidiaries. So why was the performance at CUMI America weak in the second quarter of FY '25. If I remember correctly, the performance was weak in first quarter of FY '25 as well, as the sales had declined both Y-o-Y as well as Q-o-Q? And similarly, for the Sterling Abrasives as well now the performance has been weak for the two consecutive quarters. Anything specific you would like to highlight on both these?

Sridharan Rangarajan: Could you repeat the second question on Sterling.

Harshit Patel: Yes. Similarly, the Sterling Abrasives performance has also been pretty weak for the two consecutive quarters. On one hand, the agro processing market is doing fairly well, going by the commentary of other peers operating in the same segment. So anything specific you would like to highlight on both sales as well as margins here?

Sridharan Rangarajan: Right. That's a good commentary from you, Harshit. I think as far as Sterling is concerned, I think they were impacted largely from one particular product segment called cone polishers, which removes the husk from the rice and paddy that is what is their business. And because of a government policy change which expects certain percentage of rice to be returned post-dehusking process that cannot be maintained which was probably very high and cannot be maintained by any millers at this point in time.

So the millers have stopped pretty much at least on the two states which is Punjab and Haryana. This has stopped and that is the result of slowdown, and which is what has cost Sterling Abrasives business slowdown which I think probably will get corrected post policy changes, etc., would happen. As far as CUMI America is concerned I think, see, they had a very good business. Even at this point in time, they are doing well.

Largely, the dependence on one customer which is have shifted their facility from US to Latin America, and it will take a year for them to stabilise because they had quite a lot of inventory at this point in time which is going to be currently consumed. If I remove that customer and start looking at, their growth is really good. So there will be a blip which I think we very well understand it will get back. We have invested in people in U.S.A three new headcounts were added. It's a focused market. I think it will come back very nicely. We are confident of getting it back.

Harshit Patel: Understood. Sure. Sir, my second question is on AWUKO and RHODIUS. So, what is the end user industry mix for both these companies, as what percentage of sales are derived from automobile, construction, general engineering, retail, etcetera over there?

Sridharan Rangarajan: So as far as AWUKO is concerned it is leather and wood are the two major industry segment that they serve. There is also a few other small segment, but this is the two one. As far as RHODIUS is concerned, it serves a wide range of industries including construction, infrastructure related to this. This is largely a thin wheel, and thin wheel has got a wider application in very many industries. These are the industries they serve.

Harshit Patel: The focus on the concentration on automobile industry is not very high over there?

Sridharan Rangarajan: No, not very high.

Harshit Patel: Understood. Sir, just a small question, if I can squeeze in, you have decreased your capex guidance by close to INR 50 crores from earlier INR- 350 crores to INR 300 crores. So is this just a postponement of the capex or some capex structurally we are not going to do at all. So if you can give some clarity.

Sridharan Rangarajan: It's a timing difference, no postponement. It's because of some starting delays, some timing differences, I'm just giving that guidance. Otherwise, it will be very much on whatever we plan. We will spend on each of these critical capex.

Harshit Patel: Understood. Thank you very much sir for answering my questions and all the best.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from DAM Capital Advisors. Please go ahead.

Bhoomika Nair: Yes. Sir, just a couple of clarifications. Let me start with Electrominerals. Now while Foskor has seen a weaker-than-anticipated performance, but if I look at it on a standalone basis, last two, three quarters was weak, and we started seeing some improvement in the current quarter. And if I remember earlier you had mentioned that there was some dumping by the Chinese guys both out here and SiC prices had also fallen, which was impacting VAW. So, if you can just comment on that, while the pain seems to sustain in Foskor, there seems to be some improvement on standalone as also in VAW, if you can just throw some light on that aspect?

Sridharan Rangarajan: So, I think as far as India domestic pricing pressure and competition from China is concerned, no change. It is the same. If you look at it, I think our pickup in margin is largely volume, plus also a mix, which helped us to pick up this margin, which is 8.5% moving to 10.3%.

We expect the cost pressure, which is largely coming out of the alumina prices going up is impacting most of the Electromineral products, which are white and brown fused has gone through at this point in time. And to that extent, I would say we will see this pricing pressure. We are trying our best to pass on in the market. But China competition is bit unpredictable. The logics of why would they price differently, God alone knows at this point in time. Because when you have a global alumina cost increase, which is very well known, everyone can read and comment about that, but at this point in time, this is what we have seen. As far as the SiC competition from China is very mild. I wouldn't put it the way that what we are seeing here in India.

Bhoomika Nair: Sir, also in terms of within EMD we were looking at high performance materials, and we are setting up the HPSIC plant. If you can just comment on that, where are we in terms of the construction, when does the plant get commissioned? How can we see scale up of that plant over the next few years, while it will get operational soon, but most of a scale-up perspective because it's a smaller project right now. What is the feedback that you're getting from the market? How quickly can you scale it up? Will it be a long-term process to scale it up? Or can we kind of scale it up much faster? So, some thoughts on that, sir.

Sridharan Rangarajan: So, first of all, the project is very much on track as far as the HPSIC is concerned. And we talked about December '25, where we said we will have the full utilisation that will start happening as far as this project is concerned. We expect it could be much earlier than that, but I think let's still maintain the same guideline as what we told. As you rightly observed, this is a small project. We expect establishing the products to start with, this is what we are currently trying to do. We have seeded this. We have sent some of the products to a few geographies where we are getting reasonably good feedback and we will wait to share with you more as we progress on that. So far so good. I think it looks interesting at this point in time.

Bhoomika Nair: Okay. And what about the other areas, like say, graphene or graphite or anything else to materially talk about any progress? Or maybe if you can talk about how large can this whole specialty piece become over the next two, three years? Any thoughts on that?

Sridharan Rangarajan: Yes, I think that's what I meant in my closing remarks. We would be sharing some of these details in the next six months, as we are working on the long-term strategy on each of these areas that you talked about, plus a few more areas that we have listed as well. We will share that. At this point in time, I'm not in a position to share this.

Bhoomika Nair: Sure. Sir, on Ceramics, how should we look at in terms of the margin profile? And year two, we are working on a lot of technical ceramic aspect of the entire business. So how is that share kind of scaling up, if you can throw some light on in terms of what was technical ceramics as a percentage of the segment revenues and what it is today and what it can possibly get to so that we understand how the margins might scale up. And if you can also talk about the MET cylinders capacity, where are we in terms of utilisation? Any plans to further expand capacity up there?

Sridharan Rangarajan: Right. So I think as far as the programs in ceramics side is concerned, all of them have hit the ground. We have construction, which is on the full swing, whether it is a ceramic for semiconductors, ceramic for defence is very much on, and we are progressing as per schedule. We have also looked at a few other areas within ceramics. We expect ceramics margins could go up based on these types of newer opportunities, but I'm not in a position to share what kind of a growth, etcetera.

But I would say the current profile of margins that we are seeing should continue, should improve, as we start bringing these newer one, which is what I said that step 1 for this year is delivering the INR 5,100 crores to INR 5,200 crores is what our current trajectory. And in six months' time, maybe we will share a brief profile of what are all the initiatives that we are looking at in each of these segments what we plan to do. So that, we will be able to share and maybe to give some more colour to this type of growth and margins, etcetera, and where these growths will come from.

As far as the Metallized Cylinders capacity is concerned, I think we are very well operating capacity. We should be in the range of about 80% plus capacity utilisation. And I feel that we may be in a position to increase depending on debottlenecking, etcetera. I think we are very much on track.

Bhoomika Nair: Ok Sir, I will come back in the question queue.

Moderator: The next question is from the line of Bhavin Vithlani from SBI Mutual Fund.

Bhavin Vithlani: Yes. Could you just help us with the ceramics breakup between refractories, the one which are supplying to SOFC and the growth that we have seen in the first half how the mix has changed, which is you're highlighting some mix change has led to margin upside? That's my first question.

Sridharan Rangarajan: So Bhavin, generally, we are not sharing the mix of ceramic and refractory within the Ceramics segment as well as the individual sub-segments in the various elements of it, but what I can share is that some of the products that we are looking at in terms of compared to last year versus this year, the share of Engineered Ceramics has picked up compared to the last year, which is why one of the margin pickup has happened.

Similarly, I would say few other sub-segments involved in that. Like for example, it could be fired refractory's share has also picked up. So, these are individual things which probably contributes to margin pick up, if I can share with you.

Bhavin Vithlani: Sure. Just a follow-up on the ceramics, globally when we look through the commentary of the larger grid equipment manufacturers like Siemens, ABB and Hitachi, they are delivering 20-plus percent growth in an industry which is used to 2% regularly. And CUMI, I understand, has a significant market position in the Ceramics for the switchgear application. Could you just help us understand the kind of growth.

Sridharan Rangarajan: It is also more than 20%.

Bhavin Vithlani: Okay. What would be our capacity utilisation in this segment? Are we looking at expansion in this segment?

Sridharan Rangarajan: So I was just answering this to Bhoomika, we are in the range of about 80% plus. We can improve our capacity utilisation through debottlenecking, can help us. We are not constrained at this stage by capacity as far as growth is concerned.

Bhavin Vithlani: Okay. And the Greenfield expansion, I mean, expansion that we are looking in the Ceramic segment, is the Metallized Cylinder part of it? Or the expansion is largely into the other applications like defence, as you highlighted?

Sridharan Rangarajan: So the expansion is more on the Engineered Ceramic side, which is one for supplying to semiconductor fab equipments. That is the first area of expansion. The second is in the protection of vehicles, that is defence vehicles as well as which is armour as well as the body. That is the second area of expansion.

Third would be some substrate-based expansion, which I have not mentioned in my capex program but this is not on the ground. It will come in future, but I think these are the areas of our expansions.

Bhavin Vithlani: Sure. On the subsidiaries of Abrasives, especially the German ones, you highlighted that auto is not a larger end user industry. But auto has a ripple effect on the broader economy. The kind of targets that you had set while we had acquired of getting to 11% EBIT level, would you believe that they are getting pushed out? And what is the effort that we are looking at in terms of greater level of supply of raw material and also expansion within the Europe for these 2 entities for us to achieve that 11% EBIT target?

Sridharan Rangarajan: So as far as the RHODIUS is concerned, we feel that it is still possible, and we are progressing to what we have been alluding to. I don't see any issues on that. Where we are seeing issue, which is on AWUKO, which we have not given any guidance like what we just said. But in general, I'm answering, yes, AWUKO is a concern for us, where we said we could grow at least EUR8 million to EUR10 million in this year. The growth is only EUR2 million this is where I said that for the next 2 quarters, we are feeling that this is possible to achieve.

But beyond that, we would take 6 months to get back in terms of what programs that we will have on AWUKO to get back to the both growth and profitability.

Bhavin Vithlani: Sure. Just lastly, on the Russia piece, I actually missed the numbers. If you could just help us give the data on what was the revenue and the profits in Rouble terms for the Russian entity?

Sridharan Rangarajan: I did not share the revenue when I covered, but I did cover the profitability, I will share that. So they delivered profit after tax of RUB 486 million in Q2 FY '25 against RUB 413 million for the same period last year. And H1 basis, they delivered RUB 753 million compared to RUB 836 million same period last year.

Bhavin Vithlani: Yes, thank you so much. These were my questions.

Moderator: Thank you. The next question is from the line of Saif Sohrab Gujar from ICICI PRUDENTIAL AMC. Please go ahead.

Saif Sohrab Gujar: My question is just on the cash flows and balance sheet. 1H FY '25 had a lower cash flow conversion. If you look at in current assets, inventory has a substantial increase as well as if you look at other financial assets and other current assets, they have seen an increase. Any specifics you can highlight and which segments, say, Abrasives or Ceramics is causing this?

Sridharan Rangarajan: No. I think you've observed very diligently, I would say. I think cash flow, free cash flow is a concern, and we will get back correcting some of these areas. So the building pattern, which is Q2, most of what we have done is highest in Electrominerals, highest in Ceramics, highest in as a Company and hence, the receivables or the working capital growth is on the higher side, which is what you have seen here. We will get back to normalcy in H2. So we will get to normal FCF targets that we are looking at in a full year basis. But H1, yes, we have missed the FCF target, yes.

Saif Sohrab Gujar: Specifically on inventories, if you can highlight, there also there is an increase. So is it an inventory-led, RM-led phenomenon or more finished goods only? Similarly, you highlighted for trade receivables, right?

Sridharan Rangarajan: It is mostly it's a raw material-led phenomenon where some of the materials inventory have piled up, largely because we wanted to have this as a preparation for the H2 and we are also expecting some price increases in aluminas, etcetera. So we also have ordered some of these materials in advance. So those are the reason for the inventory pileup.

Saif Sohrab Gujar: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Jasdeep from Clockvine Capital. Please go ahead.

Jasdeep: Sir, how have exports done in the first half? What are the product segments and geographies which are driving exports?

Sridharan Rangarajan: So exports have done well, both for Electrominerals as well as for Ceramics. Abrasives had a small challenge. I would not put any colour to this at this point. The geographies are largely Europe and America.

Jasdeep: Got it, sir. And sir, what are your plans for integrated Indian manufacturing with your European acquisition? Have you been able to see new product segments manufactured into your European business? And how has been the experience so far?

Sridharan Rangarajan: So we have worked on a one particular product line what RHODIUS used to outsource from other manufacturers, where we are able to manufacture to the quality standards and the cost expectation, which is what we have now established. That's one product line that we are able to do that. We will look at scaling up, etcetera. as we progress on that. Then I think another area of cooperation is we shared that DRONCO capacity getting relocated to India, which is 1 of the key programs, which will incorporate some of the technologies used in RHODIUS, would be adopted here for that line. So that will come, but that is FY '27 type of completion as far as the project is concerned.

Jasdeep: Sir, in this 1 product segment, where you have started manufacturing in India for RHODIUS, what has been the cost reduction that you have achieved? In the sense that if RHODIUS was earlier buying the same product at, let's say, INR100, now what is the price right now at which they're buying from the Indian operations?

Sridharan Rangarajan: So right now, I can share that we are able to meet their cost expectations.

Jasdeep: So broadly, what you're trying to say is that you are supplying to them at the same price as they were sourcing earlier?

Sridharan Rangarajan: No, I said that their cost expectations.

Jasdeep: Thank you. That's all for my side.

Moderator: Thank you. The last question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: My first question was more on the competitive angle perspective. I wanted to get a sense of across your segments, where is Chinese competition versus where it was pre-COVID. I understand that there was a period when you would have benefited. I'm just trying to get a sense of versus pre-COVID period, where is Chinese competition at this point of time across your segments?

Sridharan Rangarajan: So Chinese competition is there everywhere and in every product line. You can't single out in one area. It is there everywhere, right? Whether it is Electrominerals or Abrasives, whether it is India or South Africa and all these product groups and the countries have been witnessing the Chinese competition.

Now to your question in terms of pre-COVID versus COVID, or during the COVID versus the now. I think the dynamics, I would say, what are all the things that is changing at this point in time is, I mean, look, I'm not an expert on China, but I'm just sharing what I learned is there is a demand lull in China, which makes them to sell or export to other countries and perhaps the – their cost has no basis at this point in time, we do not know.

We only feel that I hope they don't sell at a cash loss, which might also happen is what we are hearing at this point. So there is, to some extent, these type of phenomenon which most of the industries and I'm telling clearly, this is not just our industry, it is many industries are facing from China. So this is what I would say at this point in time, I can broadly share.

Aditya Mongia: Understood. The second question that I had was more on high-purity silicon carbide and applications on the semiconductor side. When you think through what you want to do in that segment, what are the key kind of imponderables? Is electric vehicles, the key application and and in that context the share of 800-volt charging systems becoming more prominent in the single biggest driver. I just wanted to get a sense of how do you think through your relevance in that segment? What are the key demand drivers? And second part of the question was how would CUMI's product compared to that of competition? If you could comment on these two aspects here.

Sridharan Rangarajan: Yes. So I think, today, the semiconductor products are made either out of silicon or silicon carbide, and the devices made out of each of them have their own play. Of course, there's also -- gallium nitrate is another product. Similar to gallium nitride, few other products are also available. And each of them are playing in, depending on the temperature as well as the switch, they are getting adopted to the type of material that we would use. Plus, the other factor is the cost.

What we are seeing is that and which is a global phenomenon that is happening is SiC is preferred choice of these semiconductor devices because of the high temperature application that some of this you just mentioned in your question, hence, the preference to SiC-based devices, hence, the requirement of high-purity silicon carbide. So this is the logic of demand growth.

As far as our product is concerned, we are competitive and at high-end level, and we have seeded some of these applications to the select manufacturers of these devices in their own application. So looks like it is performing and hence, we've started seeding these trial orders at this stage. So that is probably the best at this stage I can share.

Aditya Mongia: Maybe just a last question on this part and that will be all from my side. Typically, Ceramics have had a profile of larger overseas kind of share of business versus domestic. Do you believe the same would hold true for silicon carbide as well? And in that context, can it become a business that is sizable maybe 3% or more of your entire consol top line? Can that be a possibility for the next 2, 3 years?

Sridharan Rangarajan: So to start with, silicon carbide is the biggest overseas business of us. Our capacity in Russia is about 80,000 tons to 85,000 tons, whereas our capacity in India is about 10,000 tons. So we have a significant overseas share as far as the silicon carbide is concerned. Perhaps your question, if I have to assume that it is on high-purity silicon carbide? High-purity silicon carbide is a basic venture at this point in time, very small. And most of these capacities could be consumed outside of India.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Ms. Bhoomika Nair from DAM Capital for closing comments.

Bhoomika Nair: Yes. I will just like to thank everyone and particularly the management for giving us the opportunity to host the call. Thank you very much sir, and wish you all the very best.

Sridharan Rangarajan: Thank you. I think thank you for your patience hearing. I would like to summarize one small comment, is that we are trying to deliver INR 5,100 crores to INR 5,200 crores. We expect the PAT to be around INR 500 crores. Capex program would be INR 300 crores, will be a debt-free company. We would have also prepared a strategic program by then in the next 6 months. So we've created a good delivering the current. We will also prepare a good future in which we'll share at an appropriate time. Thank you.

Moderator: On behalf of DAM Capital Advisors Limited, that concludes this conference. Thanks for joining us, and you may now disconnect your lines.