



IFGL REFRACTORIES LIMITED

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25th February, 2021

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Code: 540774


Dear Sirs,

Re: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

In compliance of above, please find enclosed herewith transcript of Earnings Conference Call on Company's operational & financial performance for Q3FY2020-21 held on Wednesday, 17th February, 2021. A copy of this is also being hosted on Company's Website: www.ifglref.com.

Thanking you,

Yours faithfully,
For IFGL Refractories Ltd.,


(R Agarwal)
Company Secretary

Encl: As above



“IFGL Refractories Limited
Q3 FY2021 Earnings Conference Call”

February 17, 2021



**MANAGEMENT: MR. KAMAL SARDA - DIRECTOR & CHIEF FINANCIAL
OFFICER - IFGL REFRATORIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to IFGL Refractories Limited Q3 FY2021 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 date of this call. These statements are not the guarantees of future performance and involved 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 an 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 Sarada, Director and CFO, IFGL Refractories Limited. Thank you and over to you Sir!

Kamal Sarada: Good evening friends. Thank you for joining us on the Q3 FY2021 earnings call. I hope you and everyone are safe and in good health. We have SGA, our Investor Relation Advisor on this call as well. We uploaded our results presentation on the stock exchanges and I hope you have had a chance to go through the same.

I will give you a very brief on the economy and other business highlights. Economy witnessed a strong recovery during Q3 FY2021 as lockdown restrictions were eased and business operations across all the industries ramped up swiftly. No one had ever imagined that the recovery would be so sharp and quick. Our manufacturing capacities were also run at almost near optimum utilization levels during this Q3. Talking about the steel industry the demand sustained and we also witnessed one of the sharpest recoveries on the back of the strong pickup in all the industries. Most important steel consuming sector the real estate and auto also gained significant tractions catering to the enhanced demand of steel. Capacity utilization of domestic steel companies also ramped up quickly. Domestic and export market both continued to benefit the steel companies here and in turn has led to continuous order inflow for us. All these factors together with the exports led us to report our highest ever quarterly revenue, quarterly EBITDA, and quarterly PAT in this Q3 bettering even all the other previous quarters.

Budget 2021 has clearly prioritized growth and development for economy through ease of doing business, increased capex, accelerated privatization ensuring minimum government and maximum government and promoting self-reliant economy through Aatmanirbhar Bharat initiative. It is evident that government is clearly focused on growth and overall well being of the economy. Increased capital expenditure, new capex plan by the private sector on the back of new demand will lead to sustained demand for steel industry in the long run. All these factors will enable new and incremental demand for refractories. Our focus will

continue to be on developing specialized products, which enable us to earn higher margins and provide value to our customers.

Moving on to the financial performance of Q3, on the standalone side we recorded the highest EBITDA and highest PAT on the back of strong demand, increased realization, cost efficiency initiative and operating leverages playing out. Total income for Q3 stood at Rs.181.6 Crores as compared to Rs.123 Crores in Q3 FY2020; this was up by 47% year-on-year. EBITDA for Q3 was Rs 43.2 Crores as compared to Rs 20.6 Crores in Q3 of the corresponding period; more than doubled. EBITDA margins expanded by 710 basis points to 23.8% compared to 16.7%. PAT for Q3 FY2021 was 24.7 Crores as compared to 7.3 Crores, more than tripled. PAT margins up by 770 basis points to 13.6% as compared to 5.9% in the Q3FY20.

On the consolidated financial highlight, our consolidated financial highlight also includes our international subsidiaries in the US and Europe. International markets are showing a considerable sign of improvement in terms of demand, which has also led us to report best ever quarterly revenue, EBITDA, and PAT at consolidated level as well. Total consolidated income stood at Rs.299.7 Crores as compared to Rs.219.4 Crores in the corresponding quarter, up by 37%. Consolidated EBITDA for this quarter was Rs.59.6 Crores as compared to Rs.23.1 Crores, up by 158%. Consolidated EBITDA margins expanded by 930 basis points to 19.9% as against 10.5%. Consolidated PAT is Rs.37.3 Crores as against Rs.7.3 Crores. The margin in percentage terms is 12.4% as compared to 3.3%.

On the individual international business, EI Ceramics our US subsidiary, total income stood at \$5.49 Mn up by 13% year-on-year, EBITDA stood at \$1.52 Mn, up by 140% year-on-year. PAT stood at \$1.3 million almost three times than Q3 of last year. Monocon, our UK subsidiary the total income was £6.32 million up by 9%, EBITDA was £0.42 million, PAT was 0.33 million. Both EBITDA and PAT were in loss in the corresponding quarter of last year. Hofmann Ceramics, the total income stood at €1.42 million down by 11%; however, at EBITDA level we are marginally positive as compared to negative in the last corresponding quarter. PAT was almost at breakeven level. With respect to the liquidity position in the last quarter we remained net debt free with a strong balance sheet, strong cash balance in our books. Our ongoing capex both at Kandla and Visakhapatnam remains on track. With the tremendous recovery the country has witnessed, with specialized products and strong balance sheet we are more confident than ever to continue to grow in the times to come. I look forward to any specific questions you all have. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The next question is from the line of Atul Kothari from Progwell Securities Limited. Please go ahead.

Atul Kothari: Thank you very much for the opportunity. Just a few questions I would like to know as to what are the key factors that led to record operating margins?

Kamal Sarda: So as mentioned in my speech also that there was volume growth which happened both in India as well as in the overseas business then the other factor was the foreign exchange, which helped us in better realization in export front, various cost rationalization measures both in the input costs as well as other expenses plus in the last one year we hardly had any travel so for us the travel cost is very high so that also led to significant savings and lastly we have a strong cash balance so that also generated income for us so that is also increasing every month or so.

Atul Kothari: Are this operating margin sustainable going forward?

Kamal Sarda: We would like to remain at that level but as I mentioned in my last quarter speech also that the input costs are going up quite significantly in the last three to four months or so, the freight rates are moving very, very sharply that somewhere it is like going up by six times so there will be impact of these factors in the current quarter as well and the coming quarters but I cannot tell you what margins would be.

Atul Kothari: Did improved realization also played a key role in higher revenue or was it only because of increased volume?

Kamal Sarda: Both I mentioned, increased realization also I mentioned.

Atul Kothari: What is your outlook on domestic steel demand in near term?

Kamal Sarda: It seems to be very good because there is a lot of infra push given by the Government of India so seems like it would be very good.

Atul Kothari: Our US and Europe subsidiaries performance has also improved significantly can you just throw some light in terms of the outlook for these markets?

Kamal Sarda: See all these markets have improved in the last quarter they have improved quite well, US market improved quite well, the EI Ceramics and the Mono Ceramics have gone to a good level not at the peak level but we have gone to a good level there. UK market is also improving but in the last few months that COVID situation was not very good, so hopefully in the next coming quarter with the vaccine being given to many people should improve.

Atul Kothari: Okay Sir. Thank you very much. That is all from my end.

Moderator: Thank you very much. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir is there any significant shift in the product mix in this year versus the product mix what we see in the past quarters because the gross margin swing is quite significant of about 600 to 700 basis points that is the first question, second is if you look at the world steel production growth rate and the topline growth rate for us there is a big gap so you want to highlight the reason for a fairly substantial growth rate in the standalone sales that we see and my gross margin question was also on the standalone side of the business?

Kamal Sarda: On the gross margin side I think I have answered in my previous question, so I think I will refrain from repeating the same. On the product mix there has been no change.

Pritesh Chheda: Was there any favorable raw material, which was prevalent in the first two to three quarters for the gross margin?

Atul Kothari: No.

Pritesh Chheda: So it is purely pricing?

Kamal Sarda: Yes, purely pricing, our cost rationalization and we did lot of work on our input cost.

Pritesh Chheda: What is the increase in the raw material cost now that you are seeing?

Kamal Sarda: It is not that we are buying one raw material there are 100s of raw materials, some are priced, some are increasing, but the trend is it is increasing in price. We are importing our major raw materials from China, RMB is also appreciated that is also an impact on the price, and sea freight has gone up so that is also getting an impact on the price. There will be an impact in the coming quarters.

Pritesh Chheda: Our growth rate and the steel production growth rate what explains the fairly strong revenue growth rate for us and the strong volume growth rate?

Kamal Sarda: I really do not know whether there is any very, very direct relation as such, all the customers have been doing quite well.

Pritesh Chheda: Any addition of any customers which goes up your growth rate number higher?

Kamal Sarda: We had couple of customers in the last one year or so that also has had, but nothing very, very significant, so all those factors added up.

- Pritesh Chheda:** Last question in the initial comment we mentioned that Q3 we are operating at optimum type of utilization so what is the incremental scope available at the current asset in the standalone for taking the revenue ahead is there any further incremental scope for your capacities?
- Kamal Sarda:** We have capacities, that is not a big issue and adding capacities in refractory is not a very big cost.
- Pritesh Chheda:** Sir that I know but existing asset?
- Kamal Sarda:** There are capacities available.
- Pritesh Chheda:** To what extent Sir, I am a bit confused on one side you are saying you are optimally utilized and on the other you are saying there are capacities?
- Kamal Sarda:** Optimum could be it does not mean that we are utilizing at 100% levels.
- Pritesh Chheda:** So what level are we utilizing?
- Kamal Sarda:** Optimum could be in some places we are utilizing at 80% to 85%, we could do some minor debottleneck and as I said capacity is not a constraint at all, we can do some debottlenecking and then do it, so there is enough scope available.
- Pritesh Chheda:** Okay, thank you, I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Vineet Maloo from Aditya Birla Sun Life Asset Management Co. Ltd.. Please go ahead.
- Vineet Maloo:** Good afternoon Sir. Congratulations on a very good set of numbers. My first question is about if you can talk a little bit about what kind of business enquiries we are seeing because we are seeing steel production recovered in the Asian region and now the west is also recovering so if you could talk about what kind of enquiry you are receiving now and would that transfer into something in the next 6 months or 12 months?
- Kamal Sarda:** Enquiries we have good order book, so the enquiries I would they are quite good. We will continue to have good sales in the coming quarters as well.
- Vineet Maloo:** So directionally we can assume Q3 run rate sustaining for some time?
- Kamal Sarda:** We would try to, Q3 had one external factor because you know this accounting standard AS 115 of the revenue recognitions, so for the export sales there was a revenue reversal in Q2

and in Q3 there was a positive pick so that added about I think 13 odd Crores sales in that. So that factor we do not know in Q4 and what will be there whether it is positive or negative we do not know so that will depend on March 31, 2021, what will happen but as I said the order book looks the enquiries or whatever you call it looks good.

Vineet Maloo: So excluding that 13 Crores the underlying run rate seems to be more sustainable right that is a fair assumption right?

Kamal Sarda: Looks as of today looks similar.

Vineet Maloo: Sir my question is about Hofmann and we have seen some cycles now more than two if I am not wrong this is a unit, which does not seem to be turning around very quickly, what are your thoughts regarding this, what kind of investment does it require?

Kamal Sarda: It is going into a different market cycle, product cycle is different for them and then that European market especially German market their auto sector is not doing so good, their engineering sector is not doing too good plus the competition in that product range has also increased so they had introduced a different kind of products, which has got a good response, but then entry level into the market is taking a longer time than expected. So it may take some more time before we get into a comfortable situation in that company we can say that as I said that company is very small compared to the total turnover, so it is not going to affect anything. They are managing on their own so that also is not affecting us to a large extent.

Vineet Maloo: On a cash basis are we not investing anything at all there?

Kamal Sarda: No nothing as of yet.

Vineet Maloo: Sir offshoring some of that production that they do is that one of the options to be considered and surely we are running our own unit?

Kamal Sarda: We are talking all steps to see that things improve there.

Vineet Maloo: While our initial investment was not much in terms of losses we have incurred that keeps on mounting and that actually was eroding investor capital in a way.

Kamal Sarda: We are taking all steps to make sure that things get back to normal faster.

Vineet Maloo: Sir just one last question regarding this Hofmann, just wanted to get the lay of the land, is it too competitive landscape out there for its products, are there too many players, are there

specific issues regarding our cost of production or is it specifically the customer base is going down?

Kamal Sarda: I do not have all those details than whatever I have told you. As I said it is very small in terms of total business of ours so there is an enough management time given to that company to ensure that we improve there, but all those cost data, competition data I do not have that.

Vineet Maloo: Okay alright sir.

Moderator: Thank you. The next question is from the line of Sanjay Nandi from Ratnabali Investment Private Limited. Please go ahead.

Sanjay Nandi: Good afternoon Sir. Sir can you please share the capacity utilization for this particular quarter?

Kamal Sarda: I think we will be somewhere around 70% levels.

Sanjay Nandi: The next question is like you are coming up with different capex programmes in the Kandla and Visakhapatnam so can you please elaborate on those things what kind of incremental sales that is going to come, what is the timeline for these projects?

Kamal Sarda: I think it is there in my presentation not the capacities, but if you can discuss with SGA they will have all the data or maybe we can speak offline sometimes I can give you more details.

Sanjay Nandi: Sure Sir. Sir one thing we wanted to know like in the monolithic space we are just investing via Vizag so what is the outlook for that particular segment going forward and how do you look monolithic industry as a whole because Orient is also coming up with this monolithic thing building some capacities?

Kamal Sarda: We are not differentiating with the monolithic and shaped refractories. The refractory market seems to be very good. That market seems to be very good. On the monolithic product also the market will remain good though it is a low value part time product maybe even margins and some products would be lower, but then the market is good.

Sanjay Nandi: Lot of restructuring things are happening in this refractory space in India and so as a competitive scenario like where we are heading to like in the next five years down the line?

Kamal Sarda: We are looking at growth. We have been growing and we will continue to grow.

- Sanjay Nandi:** Can you comment anything on the pricing competitive like do we have the power of pricing competitiveness or something like that?
- Kamal Sarda:** There is nothing, which is called pricing if somebody can take a higher price and take higher share it is a competitive pricing.
- Sanjay Nandi:** No, I mean to say like if you can shift on to some premium products like the flow control products or moving up all those products?
- Kamal Sarda:** It has to be a basket of products. You cannot only sell high value products you have to sell all the products. The customer is looking at the total solution. You cannot go to the customer that you have purchased low from some other customer and purchase high value from me, this cannot happen like this, you have to buy everything, you have to sell everything.
- Sanjay Nandi:** Sir do we have any foray into the total refractory management thing TRM?
- Kamal Sarda:** We do that.
- Sanjay Nandi:** In that segment?
- Kamal Sarda:** Yes.
- Sanjay Nandi:** So what is the scenario as of now in the TRM segment like what kind of margins do we generate from those segments?
- Kamal Sarda:** I cannot share you what kind of margins we do in that, that is something which I think is pretty internal, but then yes there are good margins in all those management contracts also.
- Sanjay Nandi:** Okay Sir thank you so much. I will come back in the queue Sir. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Rajesh Majumdar from B&K Securities India Private Limited. Please go ahead.
- Rajesh Majumdar:** Good afternoon Sir and thank you for taking my call. Sir I have a couple of general questions? One is on the consumption of refractories in the various steel making processes that is generally BF versus EAF, what is the ratio of consumption of refractories in the BF route versus EAF route?
- Kamal Sarda:** We will get into the industry expert, but I do not think it will be materially different.

Rajesh Majumdar: Last year the BF route production, which is primarily China was relatively affected and this year with the global steel production will come back it will be primarily through the EAF producers, so do we expect an incremental high growth rate globally for refractories or will it be in single digit or low single digit what is your thought process?

Kamal Sarda: If you look at the world steel data, see EAF route has got a significant advantage; they can quickly ramp up the capacity utilization and quickly bring it down if the market is not good so any incremental sales or the market demand. The EAF will be the first to get benefited or impacted. The BF will continue to run at a reasonable level always. Shutting down a blast furnace would be difficult.

Rajesh Majumdar: So that is why I was asking you on the specific consumption of refractory because as I understand the requirement of refractories in the EAF process is far, far lower than the BF process?

Kamal Sarda: No I do not think so. I do not think so there is very significant difference in that.

Rajesh Majumdar: Okay so roughly 30% to 40% lower?

Kamal Sarda: As I said I do not have the data, but in our refractories, which we supply our range of refractories there will be no difference.

Rajesh Majumdar: Okay got it. Sir my second question is that the overall refractory industry's specific consumption is declining per tonne of steel so the industry has to rely on pricing to basically grow so in the competitive scenario on a larger picture since technology is of essence and global R&D you are competing with all the large global names in India as well as abroad have a head start in this will it will be difficult to sustain a longer term growth rate because of the fact that specific consumption of refractory is going down, what will be your thought process on this, how does the company assess this scenario?

Kamal Sarda: This situation is there for the last 30 years and despite all those issues we have been growing and I think we will continue to grow. It is not going to impact us at all.

Rajesh Majumdar: So you think the specific consumption has now plateaued or it will go down further?

Kamal Sarda: It has a scope of further improvement.

Rajesh Majumdar: Okay so technological innovation products will be the key distinguishing factor going forward?

Kamal Sarda: Yes.

- Rajesh Majumdar:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Isha Savla from Arya Securities Private Limited. Please go ahead.
- Isha Savla:** Sir I have only one question. I wanted to know that as the company is having strong cash on balance so what do you plan to do with the excess cash?
- Kamal Sarda:** We do not have anything as of today other than whatever expansion we are doing in Kandla, Vizag as well as the capex in our Odisha plant is being funded through this internal cash, which we have not borrowed any loan. As of today there is no specific thing, which we can share with you.
- Isha Savla:** Okay Sir thank you. All the best.
- Moderator:** Thank you. As there are no further questions, I will now hand the conference over to Mr. Kamal Sarda for closing comments.
- Kamal Sarda:** Thank you everyone for participating in this earnings call. I hope I have been able to answer most of your queries. In case there are other queries you can contact SGA our investor relation advisor and we look forward to the next call in the next quarter. Thank you everyone and remain safe. Thank you.
- Moderator:** Thank you very much. On behalf of IFGL Refractories Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.