19th May 2025

BSE Limited
25th Floor, Phiroze Jeejeebhoy Towers
Dalal Street, Fort
Mumbai- 400001

Stock Code: 513375

National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E)
Mumbai – 400 051

Stock Code: CARBORUNIV

Dear Sir/Madam,

<u>Sub:</u> Transcript of the Investor Call

Pursuant to our letter dated 13th May 2025 informing the upload of audio recording of the investor call, please find enclosed a copy of the transcript of the Investor call and the same can be accessed through the following link.

Link: https://www.cumi-murugappa.com/wp-content/uploads/2025/05/Q4-FY-2024-25-earnings-call-transcript.pdf

Request you to kindly take the above on record.

Thanking you

Yours faithfully
For **Carborundum Universal Limited**

SURENDHIRAN REKHA
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2025.05.19 21:17:45 +05'30'

Rekha Surendhiran
Company Secretary

"Carborundum Universal Limited Q4 FY '25 Earnings Conference Call"

May 13, 2025

MANAGEMENT: **MR. SRIDHARAN RANGARAJAN – MANAGING DIRECTOR – CARBORUNDUM UNIVERSAL LIMITED**
MR. SUSHIL BENDALE – CHIEF FINANCIAL OFFICER – CARBORUNDUM UNIVERSAL LIMITED
MR. G. CHANDRAMOULI – ADVISOR, INVESTOR RELATIONS – CARBORUNDUM UNIVERSAL LIMITED

MODERATOR: **MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Carborundum Universal Limited Q4 FY '25 Earnings Conference Call hosted by DAM Capital. 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 touchtone phone. Please note that this conference is being recorded.

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

Bhoomika Nair: We have the Management today being represented by Mr. Sridharan Rangarajan – Managing Director; Mr. Sushil Bendale – Chief Financial Officer and Mr. G. Chandramouli – Advisor, At this point, I will hand over the floor to Mr. Rangarajan for his "Initial Remarks", post which we will open up floor for Q&A. Thank you, and over to you, sir.

Moderator: Yes, sir, you can go ahead.

Sridharan Rangarajan: All right. Okay. Good morning to all of you.

G. Chandramouli: Good morning, I'm Chandramouli. Before getting into the call, I read out the disclaimer. During this call, we will make certain statements, which reflect 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 results to differ. Hence, these statements must be reviewed in conjunction with the risk that the company faces. Thank you.

Sridharan Rangarajan: Good morning to all of you. I hope I'm audible and a very warm welcome to our fourth quarter and full year earnings call 2024 - 25. In today's call, I would try to cover as much as possible to give you all the facts that the company has gone through in the last couple of quarters so that you get a better picture of the performance and relate to that appropriately.

I'll start with consolidated sales. Consolidated sales on a full year basis was INR4,834 crores with a growth of 4.4% compared to the last year. This growth was driven by Ceramics 7.7%, Abrasives 3.3% and Electrominerals 1.9%. At standalone, the sales grew at about 7.3% and the challenge at the consolidated level is largely coming on account of the softer VAW growth in Q4, which I will describe more in detail.

However, subsidiaries such as RHODIUS and Foskor have grown well. RHODIUS has grown 6%, Foskor has grown by 15%. So we have Q4 challenge rising out of the VAW post sanctions, I will cover that in detail.
Consolidated PAT was INR168 crores, lower compared to the last year, INR461 crores was the last year FY '24 number and INR293 crores is this year's number. So there's a shortfall of INR168 crores and I will broadly explain what is the reason for this INR168 crores upfront.

At VAW, we made a provision of INR91 crores, this is a post-tax amount that I'm talking since I'm covering the post-tax, in Q3 and we have already described the reason for that. In Q4, since the sales volume of VAW came down post sanction, the profit also came down by about INR24 crores.

Besides this, in AWUKO, we reversed the deferred tax credit to the extent of INR32 crores and we have not taken deferred tax credit for the losses in FY '25, which is roughly about INR18 crores. So these are the broad reason for the shortfall. So consolidated PAT was lower on account of these exceptional items.

There are 2 broad items. One is VAW, which is relating to sanction and post-sanction the lower volume. So all of that is relating to sanction related and the second one is the deferred tax credit reversal in Awuko. We feel these are reversible once the situation improves. So that's how I read this situation.

PBIT on a full year basis was about INR541 crores compared to INR 621 crores in the last year. This was lower by 13.4% over FY '24. PBIT from Ceramics was marginally higher. Our PBIT from Electrominerals and Abrasives were significantly lower. The drop of INR84 crores was mainly due to VAWs to the extent of INR36 crores and AWUKO to the extent INR31 crores. So overall PBIT margin decreased from 13.5% to 11.2%.

On standalone basis, full year, the sales was at INR2,784 crores with a growth of 7.3% compared to the last year. This growth was contributed by Electrominerals at 10%, Ceramics at 6.5%, Abrasives at 3.9%.

Standalone profit after tax on a full year basis was INR322 crores as against INR350 crores in the last year. This is due to higher unallocable expenses, the details of which will be covered by Sushil later in his section.

I will cover the segmental performance.

Abrasives, to start with, on a consolidated basis, Abrasives sales in FY '25 was INR2,159 crores. This is a 3.3% growth compared to last year. Standalone contributed 3.9%; RHODIUS 6.4%, AWUKO 11%, showed good growth compared to FY '24, whereas the selling had a small degrowth largely relating to their agro business.

Standalone Abrasives sales on a full year basis was INR 1,195 crores with a growth of 3.9% compared to the last year. The growth was majorly driven by volume, both in industrial and retail. Precision was bit softer.

RHODIUS on a full year basis, achieved net sales of EUR67 million compared to EUR63 million during FY '24. This represents a 5.5% growth over the last year. This was mainly due to volume growth.

On a full year basis, RHODIUS incurred a loss after tax of EUR0.2 million against a loss of EUR1.5 million last year. So the losses have come down significantly. If we exclude the PPA write-off of EUR2.8 million, they delivered a profit after tax of EUR1.8 million. So this is what we were also earlier communicating with you.

Moving to AWUKO. AWUKO achieved a sales of EUR10 million on a full year basis. This is a growth of about 10% compared to the last year. The losses before tax on a full year basis was EUR6.6 million compared to EUR3.3 million during FY '24. The difference is on account of two things: one, there was a gain in FY '24, which is not recurring, plus an inventory provisioning in FY '25. Besides this, we also stopped taking deferred tax credit. This resulted in a reversal of EUR3.5 million of deferred tax asset. This is a deferred tax asset until FY '24. Plus, the 3 quarters, whatever we took that also we reversed in Q4 besides not recognizing for this year, which is roughly about EUR2 million.

So in total, on a full year basis, the loss after tax was EUR10.2 million in FY25 against EUR2.3 million in FY24. So this thing is majorly driven by the reversal of the deferred tax asset. The reason why we took this decision was we wanted to see delivery of profit before we continue taking this deferred tax asset credit. And hence, we reversed this asset so far what we have taken.

Now I'll cover the PBIT performance in the business segment. Consolidated Abrasives PBIT on a full year basis was lower by 17% at INR151 crores as compared to the last year. The major drop is coming from AWUKO due to the inventory provisioning and on-time gain that I just talked about. Standalone PBIT was lower by 1.3%, mainly on account of product mix.

In Electrominerals consolidated sales in FY '25 was INR1,574 crores, showing a growth of 1.9% compared to the last year. Standalone business grew by 10%, Foskor grew by 14.8%. All of them showed good growth. The performance of VAW Russia is impacted in Q4, the specifics of which will be covered in the subsequent sections later.

Standalone Electrominerals sales on a full year basis was at INR815 crores with a growth of 10% compared to the last year. This was on account of the increase in volume and price realisation. Price realisation was much higher compared to the volume growth. Other feature of this growth is that we have higher exports compared to the last year. There's a significant growth in export.

VAW until 9 months ending December 2024, the company's operations were slightly better compared to the last year. We delivered a growth of 2.2% in the first 9 months as communicated earlier. As per the press release of United States, VAW was put on sanction on 10th of January included in the SDN list of OFAC. As a result of this designation, VAWs business in Q4 got impacted, silicon carbide volume came down by 30%. Abrasives volumes were flat and Refractories -volume had an increase.

In Q4, VAW made a sale of RUB 1.83 billion against RUB 2.63 billion inQ3 FY '25 and RUB2.31 billion in Q4 FY '24. They made a profit after tax of INR11 crores in Q4 '25 compared to INR35 crores in Q4 '24 and INR38 crores in Q3 '25. These are all excluding exceptional items.

On a full year basis, VAW made a sale of RUB9.4 billion against RUB9.7 billion in FY '24 and delivered a profit after tax of INR119 crores, excluding exceptional items. This means that whatever the provision that we made is not considered part of INR119 crores against INR149 crores in FY '24. So roughly INR30 crores of profit is lower compared to the last year.

On a full year basis, Foskor Zirconia witnessed a sales growth of 9% compared to the last year. The growth was majorly driven by the volume. On a full year basis, Foskor incurred a loss after tax of roughly about INR12 crores as compared to INR7 crores last year.

I'll cover the PBIT of the segment. Consolidated Electrominerals PBIT on a full year basis was lower by 25% at INR177 crores as compared to the last year. The major drop is coming from VAW. Standalone PBIT was lower by 11% on account of higher input costs.

Now I'll cover the Ceramics section. Consolidated Ceramics sales on a full year basis was INR1,160 crores. This represents a growth of 7.7%. The growth is mainly driven by CUMI India., Standalone Ceramic business on a full year basis were at INR939 crores. This is higher by about 6.5% compared to last year.

In Industrial Ceramics business, metallized engineered ceramics grew substantially well, almost double-digit growth, while the wear -ceramics remained flat. Due to the absence of major orders in wear -ceramics, this has remained flat. The fired and mono refractory business grew well, again, high-teens growth. Corrosion-resistant business, which is a highly project-dependent business had a degrowth, and this resulted in a net growth of 6.5%.

Now I'll cover the PBIT performance of the business segment. Consolidated Ceramics PBIT for the full year basis is almost flat at INR286 crores. Standalone PBIT was better by 5.5%, mainly on account of better volumes and price.

Now I request Sushil to cover the PBIT margin, debt position, capex and cash flow.

Sushil Bendale: Thank you. PBIT margins consolidated on a full year basis was at 11.2% compared to 13.5% during the last year. Standalone PBIT margin on a full year basis was at 15.3% compared to 18% last year. Abrasives consolidated PBIT margins on a full year basis decreased from 8.7% to 7% and standalone Abrasives margins were at 16.1% against 17% in FY '24.

RHODIUS reduced their losses, but AWUKO PBIT was lower in FY '25 due to a onetime gain of EUR2.2 million in FY '24 and inventory provisioning of EUR0.7 million in FY '25.

Now Electrominerals. The consolidated PBIT margins of Electrominerals on a full year basis declined from 15.4% to 11.3%, primarily due to VAW. The standalone PBIT margin was at 7.7% compared to 9.5% in FY '24. This drop is mainly due to higher input costs and the pricing pressure in the markets.

Ceramics, the consolidated Ceramics margin on a full year basis decreased from 26.5% to 24.7% and standalone Ceramics PBIT margins declined by 28 basis points to 24.8%. Profits from CUMI Australia and CUMI America were lower compared to last year.

Now the debt position, there was no debt in our standalone books and total debt at a consolidated basis was at INR120 crores at the end of Q4 '25 compared to INR109 crores at the end of Q3 and INR113 crores at the end of Q4 '24. The debt-to-equity ratio was at 0.03 at a consolidated level.

In FY '25, our capex investment was INR282 crores at a consolidated level.

Free cash flows on a full year basis at a consolidated level is 22% to PAT compared to 86% last year. The decline in free cash flow was on account of higher working capital and higher capex investments.

The return on capital employed on a full year basis at a consolidated level is 14.2% compared to 18.5% during last year. At a standalone level, it is at 16.6% compared to 20.3% in FY '24.

For consolidated segments, ROCE in FY '25 for the Abrasives segment decreased from 13.1% to 10%. Ceramics decreased from 46.9% to 35.5% and the Electrominerals decreased from 26.7% to 18%.

For standalone business, ROCE on a full year basis for Abrasives has decreased from 44.2% to 36.2%. Ceramics has declined from 52.2% to 43.8% and Electrominerals has decreased from 26.2% to 18%.

Now about the unallocable expenses. On a full year basis, the unallocable expenses for the standalone were at INR63.1 crore in FY '25 as compared to INR19.8 crores in FY '24. This was higher by INR43.3 crores primarily due to lower dividend, higher project-related expenses, higher employee costs on account of new head count additions, ESOPs and leave benefit valuations.

Now I request Mr. Sridharan to talk to you about the future outlook.

Sridharan Rangarajan: Thank you. I will cover now about two things. One is what we look at FY '26, given what we have seen. I also would like to share more about the long-term strategy that we have been working for the last 18 months.

We expect the full year consolidated sales growth could be 6% to 7% in FY '26.

Consolidated sales growth in Abrasives would be 5% to 6%, majorly driven by growth in standalone Abrasives, which could be 6% to 8% and then RHODIUS and AWUKO.

Sales growth in consolidated Ceramics would be 16% to 18%, majorly driven by growth in standalone Ceramics and then supported by CUMI Australia and CUMI America.

Sales growth in Electrominerals could be about 1% to 2% because of the drop in sales in VAW in Russia. For VAW, we expect the sales volume drop to the extent of somewhere between 25% to 30% in FY '26. Standalone Electrominerals and Foskor to grow in the range of 8% to 10%, and 6% to 8%, respectively.

In FY '25, we delivered a PBIT margin of 11.2% at consolidated level. In FY '26 this could drop by 100 to 150 basis points because of the softer performance in VAW.

Consolidated Abrasives margin was about 7% in FY '25. We expect this could improve by another 100 to 150 basis points.

Consolidated Ceramics in FY '25 was 24.7%. We expect this could drop by 100 basis to 120 basis points.

Consolidated Electrominerals in FY '25 was 12.5%. We expect this could be dropped by 500 to 600 basis points in FY '26. This is again arising from VAW.

Capex could be in the range of about INR300 crores to INR350 crores. This is what we are expecting.

Just to sum up here, I think we feel that VAW's performance will have a deeper impact in FY '26. We feel that the profitability could drop at least by INR100 crores and that is why we have factored in the numbers whatever I'm telling. But it all depends on the recovery. Basically, if the sanctions get lifted sooner than later what we are looking at, then this could change and I'm expecting whatever I communicated as if the sanctions are continuing.

I would like to share more about the long-term strategy, which is the 5-year program that we are looking at. CUMI has a strong legacy in industrial materials and has a great starting point to capitalize the growth opportunity available in India and across the globe. Building on our rich legacy, we have spent dedicated effort in detailing out 'where to play' and 'how to win' for all our businesses, creating a clear trajectory of bold, long-term strategy for the next 5 years by identifying opportunities in the existing and emerging sectors.

Our clear, long-term aspiration has been built grounds up with cumulative effort of over 150 leaders across CUMI, its subsidiaries and joint ventures. This will guide our focus on investment for the next 5 years. At the highest level, we want to grow by 2 times in this period with sustained profitability. Our aspirations will be met with the right level of investment to fuel this growth in India as well as globally. This strategy will also be supported with a structured execution road map to help us drive on the ground change effectively.

We've ensured that our long-term growth strategy is holistic and is anchored on 3 strategic vectors. One is scaling up our core existing businesses, entering relevant adjacencies and exploring step-outs. Today, I would like to share more details on the first vectors of the group, it's about scaling up our existing business going forward.

In Abrasives, we built on our strong position to become the leading player in a growing INR10,000-plus crores of domestic market while further scaling our presence in the key export markets. We are reshaping our go-to-market model and investing in frontline capability building. We are investing in digital capability to enhance customer engagement and robust data-driven execution. They have a strong industrial distribution base.

Our goal is to deepen the engagement with customers across both retail and the B2B channels through our distribution base. We would gain market share in under-penetrated space and gain customer share to nearly double our domestic market share over the next 5 to 6 years.

To drive this growth, we are strengthening our product pipeline across both Coated and Bonded segment, shaping a dynamic customer-centric portfolio. This would be through our R&D as well as an appropriate sourcing strategy.

To serve the growing infrastructure and construction industry, we are also investing in expanding our thin wheel capacity using the synergy with RHODIUS and Dronco, which is both the asset as well as the technology and assets that we bought.

In Electrominerals division, we will evolve from a minerals player to a specialty material player. Our focus here would be we will scale up alumina capacity from the current level and increase the share of treated grain. This treated grain means heat-treated grains, silane treated, sol-gel treated, blue-heated and zirconia-coated grains. Thereby, they increase the share of value-added products in the alumina portfolio. We will also focus on export markets. Our current share would almost double in this space.

Secondly, we will focus on expanding our Zirconia portfolio. We want to add capacity. We also want to add products like alumina zirconia, stabilized zirconia, monoclinic zirconia and zirconia for thermal spray powders using the synergy that we will have with Foskor Zirconia.

And lastly, we will aim to enhance our product development capability to serve the high-growth sectors like semiconductor, aviation, clean energy by venturing into advanced materials such as thermal spray powders, both oxides. It could be aluminum, aluminum titrate, metallized zirconia, stabilized zirconia and mullite. Thermal spray powders for solid oxide fuel cells, HPSiC, graphene, silicon nitrate and aluminum nitrate. These are the newer portfolios that we will add. This strategy will allow us to completely reorient EMD's business strategy. We plan to increase our specialty minerals to 40% share in the next 5 to 6 years.

In Industrial Ceramics, we will scale our leadership in high-margin advanced ceramics while strengthening the core segments like scaling up Metallized Cylinders, Engineered Ceramics and wear protection.

Growth will be powered by innovations for specialized sectors such as semiconductor, aerospace, defence and e-mobility. We are expanding into ceramics for semiconductor, wafer fab equipment, opening opportunities across the broader and higher value segment of the value chain. At the same time, we are aligning with the long-term global priorities as well as national priorities, enter in new areas such as aerospace and defence (vehicle and body armour, both alumina, ZTA, RBSiC and boron carbide) and as well as in electronic sector, which would involve Tubes, substrates, Brazed assemblies.

To reinforce this, we are investing in the state-of-the-art manufacturing facilities, strengthening our global footprint, establishing a strategic collaboration with leading technology partners, positioning us for the long-term differentiation. A significant share of our overall investment will be directed towards our effort in expanding Industrial Ceramics to be a truly global ceramic powerhouse.

In Super Refractories, we will target to be relevant and scaled player in India's large and growing INR15,000 crores-plus refractory market. We will continue to push the borders of addressable market by adding newer products in mono and market capabilities and gain share in both domestic and export markets.

We will use our competence in glass, CPI, carbon black, cement and address global market. We will ensure our focus on cost excellence considering increased global competition in the domestic market while continuing to grow our overseas footprint. We are also expanding our structural composite capability to advance composite capability.

To support this journey, we are building future-ready capabilities across key functions. We will scale up our investment in R&D in line with the required growth. We expect to increase our R&D spend 4 to 5 times over the next 5 to 6 years to fuel the innovation across the board. Building a high-performance organization that embodies and demonstrate a set of behaviour deeply rooted in the Five Lights of Murugappa Group, signalling a culture of being even more performance and collaboration-oriented. The Five lights of the Murugappa Group are integrity, passion, quality, respect and responsibility.

We also redesigned the role of the functions -- various functions to support the truly global organization. Plus, we will be comfortable in funding these investments for our growth through our cash flows.

To summarize the entire organization of CUMI's energized by this vision for long-term growth, and we are supported by robust governance framework to ensure and track progress. We look forward to providing an update on specific process as we realize the maturity.

So just to sum up, I think for the time being, we are focused on FY '26. We have given a broad clear line for you, but at the same time we are preparing well for the 5-year journey for which we have broadly given some of the programs and what we are looking at.

And just to sum up, the FY '25, two major issues that we faced is the sanctions in VAW, which had a significant impact. The second one is the reversal of deferred tax credit. These are the 2 extraneous factors. The rest of them are normal business, which we feel that we are getting into. There are issues that we need to focus and address. We feel VAW, as I communicated to you, one more year. We've kept this at least at a lower volume of 25% to 30%, which brings the profitability also down. That is what we have factored in, in the guidance that we have shared with you.

Thank you, and we will now open up for Q&A.

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

Harshit Patel: Sir, my first question is on VAW. I missed the sales and profit number that you provided in the rouble terms. Could you please repeat on that, please?

Sridharan Rangarajan: Yes. I think VAW on a full year basis, VAW made a sale of 9.4 billion against 9.7 billion, and they delivered a profit after tax excluding exceptional items of INR119 crores and you should net off INR90 crores of impact on this. So INR119 crores minus INR90 crores would be profit after tax post this onetime adjustment. If you exclude the onetime adjustment, it is INR119 crores against INR149 crores of FY '24.

Harshit Patel: Understood. Sure. Sir, on this Q4 margins, which are very weak and you explained that our volumes were drastically down in the fourth quarter, so is this weak margin performance just because of the operating deleverage due to lower volumes? Or are there any other one-offs? So what I'm trying to understand is that where the gross margins impact over there at VAW?

Sridharan Rangarajan: Yes. So Harshit, I think, this is exclusively coming out of the volume drop. And as I said, it is 25% to 30% volumes are down in Q4 and we have factored in the similar volume drop for the full year next year as well. So that is what I communicated. So it's a pure volume drop.

Harshit Patel: Understood. Sir, my second question is...

Sridharan Rangarajan: And the one-offs relating to VAW were earlier communicated in Q3 itself.

Harshit Patel: Perfect. Understood, sir. Sir, my second question is on Ceramics. With the normalization of supplies to a large U.S.-based clean energy customer, we thought that the standalone revenue growth would be in high double digits in the fourth quarter. However, it has not happened so. So was it due to delayed ramp-up at this particular customer? Or was there any other reason for the same?

Sridharan Rangarajan: No, I think the ramp-up with the customer is happening as communicated, no challenge at all. Just to give you a perspective, the entire Ceramics segment let's look at it in 3 broad areas. 65 percentage of the business grew at about 18%. 23 percentage of the business, which is Wear Ceramics were flat. And then 12 percentage of the business degrew at 36%. That is how the overall mix you are seeing about 6% to 7%, right?

Now that camouflages the real growth what is happening. The 12% is a business, which is highly project-driven business and there are delays in projects, which really caused this degrowth. So it has nothing to do with the high-margin Ceramic business and whatever we have communicated is very much in line. We feel this project-led growth would come back next year.

Harshit Patel: Understood. Sir, what are the 65% and this 23% parts, could you explain these 2?

Sridharan Rangarajan: These consist of Engineered Ceramics, Metallized Cylinders. Those are the components and also the fired refractories, all that put together is a component that consists of 65%.

Harshit Patel: Okay. And 23% will be the Wear Ceramics business. Would that be right understanding?

Sridharan Rangarajan: That's what I told.

Harshit Patel: Perfect. Sure. Sir, just lastly, from my side, the standalone EMD margins have contracted sharply both on Y-o-Y and Q-o-Q basis. So could you please explain the reasons for the same? There is also a steep jump in the standalone other expenses. So are these 2 things related to each other?

Sridharan Rangarajan: No. So I think in the EMD margin, the way I would like to look at it is that we practically passed on the cost increase of alumina to the extent of, say, 85% to 90% cost push. The rest we could not push because of the pricing pressure coming from China. So that is what you are seeing in the margin drop.

Moderator: The next question is from the line of Mohit Kumar from ICICI Securities.

Mohit Kumar: So my first question is how is the capex and implied expenses expect to incur to achieve the strategic objectives which have laid out for the next 5 years?

Sridharan Rangarajan: So thank you, Mohit. We are not sharing this at this stage, the capex program. I would have loved to share it at this stage. But next year capex I have shared with you broadly. So that is what at this point. But as I said, we have a clear program to deliver this 2 times top line growth. So we feel that we have enough programs to deliver this and should not have an impact -- should not have an issue for us.

Mohit Kumar: Is it possible to share the R&D capex, which you incurred last year?

Sridharan Rangarajan: Don't have readily and probably at a later point we will share with you.

Mohit Kumar: Understood, sir. My second question is on the Abrasives. How is the competition shaping up? Are you seeing the easing out of the competition because you're saying at the same time, you'd guided for the market share? So how do you think you'll achieve higher growth and higher market share in the next 5 years, given the competition there?

Sridharan Rangarajan: So I broadly described the program that we would increase the market share. Right now, we are looking at the market into 4 broad categories. There's a first category like ourselves and Norton, that's local manufacturing players. The second category is largely people who either manufacture here or import and then sell in their brand name. These are good brands that they are selling.

Then the third category is the non-abrasives companies who import for their own industrial use, right, direct import from that and the fourth category is basically the international players, which they import and then sell in their brand.

So we feel that we have enough room in these 3 other category to take a share and that we can grow in the market and the growth strategy largely the broad strategy is that, one, is wherever there are product gaps where we have identified product gaps and that are going to be met both out of the new product to be developed and introduced or source where required.

And the second one is strengthening the go-to-market. There are certain states where we are not present or we have a very, very low market share where we would like to expand the market share. Plus, the customer, certain Class A and Class B customers, they would like to improve our wallet share that we work with them.

So based on these 2 broad and there are some elements to this approach, but that's how we are looking at. The R&D spend, I'll get back to you.

Moderator: The next question is from the line of Amit Anwani from PL Capital.

Amit Anwani: My question pertains to your remark about the strategic plan and you highlighted that we'll be focusing on aerospace, defence vehicles and I think defence electronics also investing in manufacturing facilities and collaborating there. So if possible for you to share more details, what kind of product, any target we have in this space and will it be high-value product, export or domestic market? Any more colour on this, please?

Sridharan Rangarajan: I would broadly touch upon this. One is it's basically both vehicle and body armour are the 2 spaces that we would work because that is where the ceramic has got a play. So that is all we are looking at and that's why I said that we will be focused on that. It would be based out of either alumina or a ZTA or reaction bonded silicon carbide or boron carbide. These are the materials that we would be using and the product outcome would be either a body armour or a vehicle armour.

Amit Anwani: Sure, sir. Sir, second question, again on VAW. So you said FY '26 also will be hit by a decline of 30%-33% on VAW and impacting the PAT by almost INR100 crores for FY '26 as well. Wanted to understand how one should look for VAW? Are we in a wait-and-watch that these things, which are dependent on external controls, will be better off? Or is there any strategic thinking, which has gone into VAW while devising the 3- to 5-year plan for us?

Sridharan Rangarajan: So I think since the time of the sanction in January, early January 2025, right, so we are almost, say, kind of 4, 5 months since the sanction has happened, there are a lot of developments, which are very positive, right. There are multiple ceasefires has happened between Ukraine and Russia. There are open comments made by both the governments that they would like to end this conflict and then reach a settlement.

There is also a lot of facilitation being offered by various countries across the globe and every other country has expressed that this should end. So we hope, I think there will be a logical conclusion sooner than later. I'm not an expert on the geopolitical happening, but we positively look forward to that.

Amit Anwani: Right. So finally, on the Chinese impact, which we have discussed throughout last year also that there has been a pricing pressure and we try to device distribution strategies across segments where it was impacted, including the low-end abrasives and alumina and we talked about at least 5 to 6 quarters for things to be better off. Are we under similar notings or have the things further deteriorated or improved from the Chinese dumping side?

Sridharan Rangarajan: See, again, the time we talked versus the time we are now talking, there are many things that has happened. The global trade itself is undergoing a reset. So obviously, it is better to wait and watch in how this whole thing will develop.

We expect that the competition from China will continue to be tough and they will have upper hand in terms of the bringing down the cost, ability to compete in terms of prices, which no one can match. So those issues will continue is what our current thinking is and obviously, we are preparing ourselves to work against that.

Moderator: The next question is from the line of Mohit Pandey from Macquarie.

Mohit Pandey: Sir, my first question is on the 5-year outline that we have shared. Sir, please correct me if I'm wrong, but as I can understand, the incremental growth as per your current position will be from incremental domestic investments. Is that understanding correct?

Sridharan Rangarajan: Right. That's correct.

Mohit Pandey: Okay, okay. And sir, I just wanted to hear your thoughts on the turnaround strategy for AWUKO and RHODIUS, especially in line of the stimulus that is being announced by the economy there on the infra side? Is AWUKO and RHODIUS likely to have a second order impact here?

Sridharan Rangarajan: So as far as the RHODIUS is concerned, as I said and communicated in the call also, they are profitable after you exclude the PPA, which is our own write-off that we are trying to do that, right? So it is profitable and it is the growth trajectory. There's no issue on the RHODIUS side.

What we are facing is on the AWUKO side. We feel that the growth opportunity, which you are talking about, the second order benefit that would come, we feel that this will help them. Definitely, this is what we are also looking forward to. So there would be a betterment is what we are looking at.

Mohit Pandey: Okay. But for this year's guidance, so clearly, it's too short term. So you're not building in any impact because I heard you said it was largely driven by domestics. Okay, okay. So that's clear, sir. Sir, secondly, on Ceramics, if you can please confirm that for the margins, your guidance is a drop of 100 to 125 basis points. Is that right, sir for FY '26?

Sridharan Rangarajan: Yes, 100 to 120 basis points.

Mohit Pandey: Okay. And sir, what would drive this, please?

Sridharan Rangarajan: It is this coming from the -- again, there's a small portion of the business from Russia. So that would get impacted, hence, we are building that.

Mohit Pandey: Okay, Sir, and across the 3 businesses -- or maybe across Abrasives and Ceramics, as per your current assessment, over the next 5 years, there is clearly a much higher growth. Would that be Ceramics? And what would that mean for our margin for Ceramics?

Sridharan Rangarajan: So I'm not sharing any margin guidance on the future. But broadly, I explained our overall trajectory, we are looking at doubling it. Second is that programs that what would drive the growth is what we have shared. I would like to stick to that.

Mohit Pandey Sure, sir. Sir, one last question. On the minerals, specialty minerals, greater push towards specialty minerals, Sir, if you could please, if it is possible to elaborate what is different this time because I understand for the past several years, there has been an ambition to increase sales for specialty minerals in the overall business. So what's the right to win now, given that, if I understand correctly, we've already been trying this in this area for quite some time?

Sridharan Rangarajan: Absolutely. Great question. And I think thanks for asking. Three different things. One is within alumina, we are increasing the treated grain and export of alumina is going to go up. That's the first vector, this is different. Second is increasing the zirconia portfolio, this is the second vector of difference because our right to win is very high because we have established operation in South Africa plus we are also having a small operation here.

So with this, we want to increase the portfolio. As I said, it's just not only all varieties of zirconia, whether it's alumina zirconia, stabilized zirconia or monoclinic Zirconia and zirconia for thermal spray powder. So it's entire range. That's the second difference.

The third difference is focus on thermal spray powders using oxides. That is the third difference where we have established our capability and we are trying to ramp up with a few anchor customers that we have.

The fourth area that we would like to focus, which is on 2, 3 different materials. One is the HPSiC and the thermal spray powders for solid oxide fuel cells and alumina nitrates, which is both silicon nitrate as well as aluminum nitrate.

The last alone would take about 3-4 years before the real benefit of this would start coming. The first 3, where we have established the right to grow, and that is how we are planning to grow. These are the difference between the earlier program and this program.

Moderator: The next question is from the line of Nidhi Shah from ICICI Securities.

Nidhi Shah: So my question is mainly around employee expenses. We see employee expenses have kind of shot up this year and I understand that some of this bit is from ESOP. So how much is ESOP, how much is not? And then what can we expect in FY '26 in terms of employee expenses?

Sridharan Rangarajan: So broad guideline is that employee expense as a percentage is still very much comparable range only. So there is no change into this. These are minor blips that happens on a year-on-year basis. They're not significant. So since you are making a forecast, I would encourage you to look at it that way.

Nidhi Shah: All right. And could you provide the ESOP number that was for this year in the employee expenses?

Sridharan Rangarajan: Not much, Madam. But anyhow when annual report comes, we will have a lot of details on the ESOP.

Moderator: The next question is from the line of Manish Goyal from Thinqwise Wealth Managers.

Manish Goyal: Sir, I have 2 questions. First on your 5-year plan, so we aim to double sales. So does it assume any inorganic initiatives? And if yes, then probably in which areas or what would be the focus on that, first question.

Second question, I just would like to know have we probably started realizing any gross leveraging benefits on acquisitions with RHODIUS and AWUKO? Maybe geography wise in terms of leveraging sales and distribution and also on the product wise.

Sridharan Rangarajan: So the numbers that we looked at and shared does not have any acquisition as part of this number. And as far as RHODIUS, clearly, we are looking at lot of synergy arising and in fact, the thin wheel facility that we are setting up will be using the technology of RHODIUS and that would help us deliver quality products and at the cost that the market would like to have. So this is the synergy, I would say, as an example from RHODIUS at this point.

Manish Goyal: And would you be able to like the challenging what we face from China in terms of largely on the pricing front, will this probably technology help us to address that and that is how we are probably looking at?

Sridharan Rangarajan: Yes. So we have looked at what is the imported costs and what is also this technology would bring plus we worked on a cost model where we should still be competitive if some dumping happens from China, we should be able to counter that.

Moderator: The next question is from the line of Aditya from Kotak Securities.

Aditya Mongia: I had a question from my side. The way you have split the Ceramics business in terms of components and growth, could you do the same for the Abrasives and EMD standalone portions in terms of what is being impacted by China and what is not. It would be good to know the relevance of Chinese competition in terms of revenue share impacted and the real impact being seen given whatever is happening right now in last 1 year.

Sridharan Rangarajan: So as far as Abrasives is concerned, I don't think we have any -- I mean, that's a universal growth that we are having. I'm sure you would have looked at other published results in the space. So we both are traveling, give or take, about 4% growth. And so the way I look at it is that almost, say, 50%-plus market is getting imported into India. Of that, 60% comes from China, and the rest is coming from other countries.

So that constitution, we have not seen any big difference compared to the earlier position. And that's why I felt that you continue to have this challenge and then you are looking at that. So we're countering that, two things. One is come up with your own new product to be delivered or source for the time being and then develop the product as you become ready today and launch this. So we have now looked at a whole lot of sourcing strategy to counter this and that's the program that we are looking at.

As far as the Electrominerals is concerned, I think where we are having a challenge is the entire the alumina space is where the challenge that we will have, which is all we talked about so far in the earlier calls also. My guess is that the entire alumina space could be about 30% to 35% of our business should be in that range.

Aditya Mongia: Sure. Just to kind of complete this question. So if we only focus on areas between Abrasives and Ceramics that are not impacted by Chinese, what would be the kind of growth pattern that you are seeing in those kinds of market on a blended basis?

Sridharan Rangarajan: Yes. We are not sharing anything like that. I've given a broad next year growth. I've given my expectation in terms of that. So I would like to stick to this, Aditya.

Aditya Mongia: Okay. The second part on this would be then that the Electrominerals segment at a standalone level margins were low. As we see through the next year, how should we think through them? As you've been able to pass on 85-90% and this alumina division is a sizable part of that business. So how do you think through whether there is scope of further pushing the pricing up? Or should we be assuming low single-digit margins in that portfolio?

Sridharan Rangarajan: So overall, I guided that the EBIT margin on the aluminas will come down by 500 to 600 basis points compared to this year, 12.5%. And I feel that it would take care of some portion passing on benefit -- cost push also. I feel that in the initial Q1, we will continue to have this pressure in India and then we will slowly start getting this better in Q2 onwards. So that's how I'm looking at.

Aditya Mongia: And would there be a strategy that we can follow the way we are doing in other areas wherein we'll be in a better positioning in the alumina space from here on? Or is it just dependent on -- yes. So what's the strategy over there? How soon can it like benefit us here?

Sridharan Rangarajan: Right. I just discussed the strategies is supplying more treated grains in alumina, which help us to have ability to counter this. This is what is our strategy. I enlisted all the types of treated gains and we are very much on it. In the next 1 year, we should be able to start launching these products and going in that trajectory.

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

Bhavin Vithlani: So I have 3 questions. First, if I look at the Abrasives business on a standalone basis where 11 quarters we are seeing low single-digit growth and there were three couple of quarters in the early part of calendar year 2024 where we were seeing some acceleration, but we have now seen deceleration back.

So if you could help us understand breaking it into 2 parts. One is what part is the slowdown in the end market? And I understand Abrasives is over-indexed to commercial vehicles and that segment of the market has slowed down? And second is what we are seeing is acceleration in the thermal power manufacturing, especially when we look at BHEL order book, et cetera. So if you could help us understand the underlying market slowdown.

And second, what part of the market is impacted by the Chinese competition? And that part, we understand has should have been anniversarized. So that is my first question to understand the stand-alone Abrasives better.

Sridharan Rangarajan: So the industrial distribution is growing at about high single digit, right? And we see that, that's a very positive one. Retail is growing at about mid-single digits. The challenge is largely in the precision side, where the industrial growth-led precision side is where the challenge is. And I think you have pointed out some of the industries and you have clearly articulated that. So that is where we see this deceleration is happening. So as the industry picks up, we feel that this momentum will start picking up. That's how I read this.

Bhavin Vithlani: Great. The second question is on Russian piece. And when we see this quarter, revenues declined by about 16-odd percent, but you've seen a sharp drop in the margins. In this, if you could help because this is a continuous process industry. So slowing down or stopping of production is difficult. So we would have been forced to sell in Russian market.

So if you could just help us understand the kind of pricing pressure that would have happened and the kind of volumes impact that was there in the Russian piece because of forced selling into the home market and exports kind of getting impacted due to the sanctions?

Sridharan Rangarajan: So honestly, there is no forced selling. We feel we are currently not able to sell. Hence, we are not producing. So hence, as a result of that, unabsorbed costs because you carry a lot of cost of this full manufacturing process. That is what is getting impacted and as I said, it is not 16%. It is about almost 25% to 30% volume drop in Q4.

We expect a similar drop for the next year as well. So there is no, I would say, because of that, we are trying to push this into the market, hence, the price falls, et cetera. It is largely we are not able to sell. Hence, we are not able to produce, hence, we have an issue in terms of the profitability.

Bhavin Vithlani: I understand. The last question is on the Ceramics piece. So if you could just give us where we had seen a slowdown last year in some of the specialized piece, which was going to which we're selling to the hydrogen cells. How has that market now shaping up given that when we look at your end customer, they are seeing increased order booking.

Second is especially on the metallized piece where transmission and distribution as a segment world over we are seeing very strong growth. So on that, if you could give us an outlook in terms of what we are seeing in the specialized piece and what it does to the growth outlook for the next year in the standalone Ceramics piece?

Sridharan Rangarajan: No, no, great observation. So I think, as I said that 65 percentage of the Ceramics segment has grown about 18%. This includes the sectors that you talked about and so they are growing, including Metallized Cylinders are growing well. So definitely, you are right in your observation. As I said, the 23 percentage of the business is flat, and hence, the average is coming down. That is what I earlier also told.

Bhavin Vithlani: So just a follow-up here. This piece is basically the refractories piece, which is slowing down due to the underlying steel production demand?

Sridharan Rangarajan: No, it's a Wear side of the Ceramic business, which is what is flat.

Moderator: Ladies and gentlemen, that was the last question for today's conference call. I now hand the conference over to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair: Yes, I would just like to thank all the participants and also the management for giving us an opportunity to host the call. Thank you very much, sir, and appreciate it. Any closing comments from your side?

Sridharan Rangarajan: As I said, I think just to give a brief closing comment is that this year, there are 2 extraordinary factors. One is largely driven by Russia sanction, which eventually has got 2 types of impact. One is a provisioning impact, which we feel that once this sanction gets lifted it will reverse back. The other one is the volume drop as a consequence of that, which happened in Q4.

The second major challenge that we faced is the reversal of the deferred tax credit in AWUKO.

So if you take these 2 factors, which is the substantial portion of the difference that accounted for, we feel that the business is doing fine and we have spent a good amount of capex this year.

We have also spent 18 months of time in creating a good structured, long-term strategy. We've communicated the broad direction in which we are trying to travel. We've also broadly looked at considering the current global trade-related issues and the geopolitical issues.

We feel that what we are looking at as the next year, we communicated, we said that we'll have a 6% to 7% growth and we also broadly communicated PBIT margin, how it would pan out. We feel highly focused on our execution in terms of the long-term strategy. So we will see improvement, strength to strength every quarter. Thank you for your support and thank you for your patient hearing.

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