RHI Magnesita India

Operator: Good afternoon, everyone. This is the second day of the Bharat Connect conference. I welcome you all to the call of RHI Magnesita India Limited. Today, from the management side, we have Mr. Azim Sayed, Chief Financial Officer, and Mr. Abhishek Bajaj, Head of Reporting and Finance.

Before I hand over the call to management, I will explain the flow of the event. We will start with brief introductory remarks by management and then move on to the question-and-answer round. Any participant who would like to ask a question can raise their hand or put it in the chat box. First, we will take questions from participants who have raised their hands, and then we will move on to the participants who have posted their questions. If time permits at the end, we will take questions that I have received from clients who were not able to participate. With this, I now hand over the call to management. Over to you, sir.

Azim Sayed – CFO: Thank you very much, first of all, for having us at this wonderful event. We are very excited to be here. I would like to make a very brief remark. India has an excellent growth story. There is a lot of underfunding of infrastructure capital, but with the government's initiatives, there is going to be considerable infrastructure investment, especially in the areas of steel and cement, as well as various other non-ferrous metals and glass.

What we do at RHI Magnesita is enable modern life. What does this mean? Anywhere heat is required, you need refractory products. For example, if you have an iPhone with you, one iPhone requires 0.05 grams of refractory. Why? Because you have glass, semiconductors, aluminum, and so on. These materials go through considerable heat cycles in various smelting and heating processes. Refractories are the products that protect our customers' equipment.

We are well positioned to capitalize on this growth because India has an ambition to reach 300 million tons of steel by 2030 and to increase cement capacity by a considerable percentage. For the production of steel, you need refractories, and for the production of cement, you also need refractories. We also complement production particularly well whenever there is downtime in glass, non-ferrous metals, and various EEC projects. We actively participate in these areas as well.

A bit about RHI Magnesita: RHI Magnesita is one of the world's largest refractory producers outside China. We have a group entity based in Austria, but if I talk about India, I am happy to report that we continue to be the market leaders here. The majority of our customers are in steel, and we also produce and supply to the cement industry.

If you look at our investor presentation, you can clearly see that for every ton of steel production, you need approximately 10-12 kilograms of refractory consumption. That is the ballpark figure that we normally use.

We are in a very good position to do that. What I would like to do now is explain our strategy. We have five pillars to our strategy.

The first pillar is what we call “outgrow the market.” One of our clear strategies is that we believe steel and cement consumption will grow at approximately 5-6% CAGR until 2030. We want to grow 2% beyond this. How will we do this? We have deep customer relationships and a complete product

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portfolio. If you look at our competition, they have depth in certain product categories. For example, if we consider Vesuvius, they have products that serve only certain areas of steel production. In casting, for example, they have considerable depth. Whereas RHI Magnesita has both breadth and depth all the way from iron-making to casting for steel production.

The same applies to cement. In cement, we have alumina, basic products, and castables. We are the only company that can provide the end-to-end product portfolio. This does not explain how we will outgrow the market, but it definitely explains how we will grow organically within the company.

One of the areas on which we are completely focused for outgrowing the market is iron-making. One of the biggest bottlenecks for steel production to increase from 169 million tons to 300 million tons is the availability of iron-making capacity. This is where considerable greenfield and brownfield investment will take place in the market. With the acquisition by our group company of Seven Refractories, we have the product portfolio to grow our iron-making market share, where we are currently underrepresented.

To put some numbers in place, 2-3 years ago our iron-making market share was 3%. Today, it is approximately 13%, without any capex investment, because we already have a significant product profile. Our ambition is to take this from 13% to 30%. This is one major area where we will outgrow the market, particularly with all the greenfield and brownfield projects coming through. We are absolutely confident here.

The second pillar of our strategy is what we call 4Pro. RHI Magnesita was an innovator in providing a business model called TRM, which stands for Total Refractory Management. Under this model, we used to supply the product, take care of the installation of the product, and manage the supply chain as well. However, as you may be aware, not only in the refractory space but in every sector, there is considerable competition from domestic, multinational, and global companies. This has led to considerable commoditization of the refractory market.

Over the last 2 years, we reoriented ourselves and thought about how we could sell or add value to our customers' future ambitions. This is where we introduced a concept called 4Pro. The idea is that rather than just providing products, we become consultants. We ask what the customer's problem statement is and try to resolve that problem statement.

For example, a customer may say that they want more productivity. Another customer may say that sustainability is the most important factor. A customer may say that cost competitiveness is more important, or may simply want the best end-to-end solution provider, or a combination of all these requirements. This is what our 4Pro offering provides.

For example, based on customer requirements, we have made considerable progress in digitization, robotics, and automation for customers. We have clear case studies, which you can see in our investor presentation, relating to improved safety, better productivity, and solving customer challenges, such as reducing energy costs for customers. This is gaining considerable traction in the market. We still have a long way to go, but our ambition is to take an aggressive position in decommoditizing the refractory market as it exists today.

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The third pillar is cost competitiveness, and it has three components. The first component is to move completely toward Make in India production. We are aggressively undertaking product transfers, and we believe that these product transfers and the domestic supply chain will ensure that we can provide products cost competitively in areas where we cannot do so today. Most importantly, this will further the ambition of the Indian government in terms of Make in India.

The second component is what we call mineral processing, wherein we want to reuse secondary used material and convert it into virgin material. We believe that this will improve its performance.

The third component is what we call the operational excellence program. Our aim is to improve the operational performance of the product, which will help us improve productivity, particularly in terms of OEE, and provide cost-competitive benefits for our customers.

These are the three pillars, and the fourth pillar is sustainability. Abhishek Bajaj, do you want to talk about the sustainability component?

Abhishek Bajaj: Definitely. As we discussed, 4Pro goes beyond product performance. We are also offering customers a solution to understand their problem statement, which is where they dispose of their used refractories. Generally, they send them to landfills or otherwise have to dispose of them. That is the problem statement.

What we are currently doing is using recycled material in our recipes. For example, as of now, 20% of our recipes use recycled material. Today, I have different plants where I carry out recycling. However, under 4Pro and {? Seven Refractories ?}, including the {? KEMCO ?} joint venture, we have a dedicated recycling unit. Therefore, we need more {? ref ?} material, which we can process immediately.

With this sustainability component, we are offering a solution: we will buy your used refractory, which you would otherwise recycle or send to a landfill. We pay you a cost advantage and also provide you with carbon credits. It is our refractory and our chemistry, so we know where it is coming from and can use it very effectively.

In turn, we receive a cost advantage, and customers like it because their problem statement is resolved and they receive carbon credits on top of that. In this way, end-to-end, we utilize the material in our factories. We are confident that this will give us an EBITDA benefit, and it has already started giving us an EBITDA benefit in terms of lower production costs.

Management: Yes. The last pillar is also about digitalization and technology. Here, we are implementing programs that will improve our process maturity. This will help us automate the process.

Specifically, we are looking at how we can improve planning, how we can obtain a better cost advantage when buying products, how we can purchase raw materials and manage sourcing more effectively, and how we can ensure that, end-to-end, we are coordinated to deliver value creation for ourselves.

To summarize, India is growing, and we have a very clear plan for how we want to outgrow the market. Most importantly, we are not forgetting two important stakeholders.

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The first is our customer. Through the 4Pro interface, we are trying to establish deeper customer relationships and determine how we can add better value for customers.

The second is our shareholders. We want to become cost competitive, grow with sustainable value creation, and, most importantly, contribute to society in a more balanced manner.

With that, I will hand it back to the operator for any questions that may come up.

Operator: Thank you, sir. We will now open the Q&A round. Any participant who would like to ask a question can raise their hand or put it in the chat box. First, we will take questions from participants who have raised their hands, and then we will move on to the chat box. We have our first question from Garvita Jain. Please go ahead.

Garvita Jain: Hello, am I clearly audible?

Management: Yes.

Garvita Jain: My first question is about the recent stake sale by Dalmia. The Dalmia acquisition was carried out at a valuation of 632 rupees per share in 2023, correct?

Management: Yes.

Garvita Jain: That implies an equity valuation of 13,000 crores for RHI Magnesita. However, the recent 11% stake block deal took place at a per-share valuation of only 360 rupees, which is approximately a 43-45% discount to the issue price. For a strategic shareholder, how should we analyze this situation? Was it purely Dalmia's portfolio decision, and as an investor, how should we interpret it?

Management: It was completely Dalmia's portfolio decision, to be honest with you. Their intention was to sell, so I think it is an appropriate question for them.

If I have to give you my perspective, the world has changed considerably over the last 3 years. We have also made adjustments to our balance sheet, which reflected the changes taking place in the market.

For example, let me give you 3 events that changed the situation completely. First, when we bought Dalmia and Hi-Tech, there was significant business interest in Syria, Russia, and Iran. As you know, there was the Russia-Ukraine war, and there were also issues relating to Syria and Iran. We had a significant group stake in these markets, and because we are listed on the London Stock Exchange, we were not allowed to do business with them. That was the first factor that occurred after the acquisition, namely the Russia-Ukraine war.

The second factor was the depreciation of the foreign exchange rate. This also contributed quite significantly.

The third factor is the current geopolitical uncertainty and market behavior. If you look at the cement market, the number of players has increased considerably. In the cement portfolio, particularly on the alumina side, the number of tail-ends is in the three-digit range. There is considerable competitiveness. Even some of the most established players are adding capacity,

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which is turning the market from a seller's market into a buyer's market.

We also made some corrections to our balance sheet. That is to give you an overall view of the market. However, to be very specific, this was completely Dalmia's decision, and of course, we respect that decision. They would be in a better position to answer this question.

Garvita Jain: Should we look at the situation as indicating that we are bullish about the industry and its trend? However, Dalmia's exit also signifies negative sentiment, correct? Perhaps they do not see the kind of trajectory that you see in the business, because someone who acquired the shares at 632 rupees is now selling them at almost half the cost.

Management: As I said, I cannot guess what they are thinking. I know you are trying to get an answer from me, but unfortunately, Garvita, I cannot guess on their behalf why they sold and what they sold.

We had a very detailed discussion with them, but it was their intention to sell. Do they see value? Yes, they see value. If you look at the buyers, the entire block deal was completed within 10 minutes, or less than 10 minutes. I do not know the exact timing.

This also shows that our current share price is significantly undervalued. When we spoke to several institutional investors, they understood what had happened over the last 2 years and, most importantly, they also saw the potential for the future.

The potential for the future comes with headwinds, and let me be absolutely honest about that. Let us talk a little about competitive behavior. To give you some background, last year capacity utilization in the Indian refractory industry was approximately 68%. Despite that, considerable brownfield and greenfield refractory capacity is coming online. This also creates some headwinds.

Despite this, institutional investors are absolutely bullish on our product because they believe in our strategy and see the potential. All I can say is that today we are undervalued relative to where we can go, because we believe there is considerable value that can be created without any investments. We have stronger customer relationships and the most diverse product portfolio that anyone can offer in today's market.

I would not call it a distress sale. In my opinion, a distress sale means that there is only a seller and no buyer. Having said that, you can see that the people who bought the shares are long-term institutional investors, which sends a very strong signal to the market.

I really do not want to comment on the reason Dalmia is selling, but they valued our relationship and it was well understood from their perspective why they wanted to sell. All I can assure you is that it was not a distress sale.

Garvita Jain: I have one more question, again relating to the inorganic acquisitions we have made over the last 2-3 years. The objective of these acquisitions was to deliver scale and diversification and structurally achieve higher margins, correct? However, so far we have not seen this objective being delivered in the numbers. We have seen EBITDA margins fall from 13% to 11%.

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Are we aligned with the objective and purpose of the acquisitions? What margin and synergy targets did we set at that time? Are we in line with those targets, how far has the integration progressed, and when and how do we expect margins to improve from here?

Management: I will probably address that, and Abhishek can give the forward-looking view, if that is okay with him.

This is a great question, because it addresses the rationale behind the acquisitions. To ensure that everyone has the right understanding of why we made the acquisition, let us discuss it in some detail.

Hindsight is a beautiful thing, but let us talk about the rationale. The rationale for the acquisition was that India is going to invest significantly in infrastructure capex and there is enough capacity available in the market. Therefore, consolidation or acquisition is the right way to proceed. We believe consolidation is the right way to proceed, and we still believe this.

We advocate this in all advisory forums, whether they relate to steel, cement, or refractory advisory firms. This is what we continue to advocate.

To put some numbers into perspective, before the acquisition our cement market share was 3%. Today, it is approximately 43%. That shows the impact the acquisition has made.

We always understood—and this is where I want to clarify the point—that it was never about absolute margin conversion. If you look at the realization rate of the products we acquired compared with what we already had, the realization rate for cement bricks is always lower. It is significantly lower compared with what we sold from our Bhiwadi plant; it is almost one-third of that level.

Therefore, we always understood that the percentage margin would be lower. This was very well understood from our perspective.

To give you some perspective on whether the integration worked, Dalmia's standalone EBITDA before the acquisition was around 7%. If we remove the one-time items, it was approximately 3%. Today, after the acquisition and integration, we are consistently delivering double-digit EBITDA percentages. This shows that we know how to run refractory plants.

Now let us discuss the positive aspects and the areas that did not work out. We already discussed some of the business assumptions that did not work out, including the markets where we were unable to operate because of embargoes. Again, this was a post-facto issue.

The second issue was that the export market contracted quite significantly. Particularly in Europe and the Middle East, the assumed percentage at that time compared with today has changed because of various geopolitical factors and regulations such as CBAM. This has had a detrimental impact on our business case. This was definitely a miss for us.

The third issue was market competitiveness. The product portfolio we have, particularly in the Dalmia entity, operates in a highly commoditized market. Let us be honest about it: it took us considerable time to understand how to be cost competitive in this market.

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We have taken 2 actions here. The first is that we have harmonized our recipes and improved product selection. This has helped us regain some competitiveness and improve absolute margin percentages.

The second action is to revamp the entire product portfolio. You will see this in one of our investor presentations. We are transferring a significant amount of technology, particularly from China and Europe, into these products. This will start to be reflected in the upcoming months, and you will also see an improvement in our realization rates.

Management: This is not capex, but more of a technology transfer, which is also what we are implementing on the Dalmia side. Abhishek, do you want to give some guidance on the future outlook from the Dalmia perspective?

Abhishek Bajaj: That is right. One thing I want to add, Garvita, is that if you look at our business, RHI Magnesita has been formed through various acquisitions, and we have breadth as well as depth in all areas.

If you look at our historical margins, they were primarily driven by flow control. If you look at Orion Refractory and the Bhiwadi plant, as well as Hi-Tech, you will see that Hi-Tech has the Jamshedpur and Bhiwadi plants. These 2 plants are in flow control, and we are still reporting margins of more than 18.5%.

This means, first, that we are sustaining our position there. Second, we are ahead of the competition. Third, wherever we see opportunities, we are the market leader in obtaining price increases and gaining share.

Later, we acquired the brick business from Manishri Refractory in Cuttack, which was a high-ROI plant in 2019. After that, we integrated our various entities within the RHI Magnesita Group and acquired the Dalmia business as well as Hi-Tech.

Hi-Tech is profitable. In the Dalmia business, we acquired an industrial business where, as Azim said, EBITDA was 3%. The reported figure was 7% because of a one-time gain relating to a large interest income item.

From that 3%, we are now sustaining more than 10-11%, which means we are consistently at double-digit margins without making massive improvements to the manufacturing facilities.

What we did there was, first, upgrade safety in line with RHI Magnesita standards. We invested considerably, and we are still seeing healthy margins.

Second, we implemented operational excellence programs relating to manpower productivity, fuel, and other areas. We continue to do that, and we are confident that we will be able to sustain double-digit margins going forward as well.

If we look at our breadth and depth, our margins have deteriorated as a percentage because our revenue has more than doubled as a result of these acquisitions. We have gained breadth in our portfolio, and this is exactly what competitors are trying to do now.

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For example, Vesuvius and TRL Krosaki are also undertaking greenfield and brownfield expansion in non-flow-control areas, which are less profitable and generate single-digit margins. I am sure you noticed that in Vesuvius's last results and global investor call, they informed investors that they had taken a 2 billion euro hit because of the operating expenses of their new plant.

What I am trying to link is that, first, we are the market leader with depth and breadth across refractories. Second, sustainable operations are giving us healthy margins.

Having said this, while we were at 11.7% last year, we are still providing guidance of 13% for the current year. This is the result of our price increases, efficiency in implementing price increases, operational excellence, and volume share gains.

I hope you got your answer, Garvita.

Garvita Jain: Okay, sir. One question.

Operator: Sorry to interrupt, Garvita. You may rejoin the queue. Thank you. We have our next question from Vedant Sarda. Please go ahead.

Vedant Sarda: Am I audible?

Operator: Yes, Vedant.

Vedant Sarda: Thank you for the opportunity. Can you tell me the current capacity utilization across all our facilities?

Management: 67% overall.

Vedant Sarda: You are talking about 8% volume growth. Does that mean that for the next 4-5 years we will not need any capex?

Management: Absolutely. It is not required.

Vedant Sarda: What kind of EBITDA margin can we see going forward at the same level of expenses?

Management: We are going to be very conservative here, Vedant, for a couple of reasons. First, the competitive landscape is evolving. Second, we are undertaking considerable product transfers, and it takes time for them to materialize. We are saying that the guidance for this year is approximately 13%, conservatively.

Vedant Sarda: What will be our optimum utilization rate?

Management: Mathematically speaking, the optimum utilization rate for our type of product portfolio is approximately 82%. However, that does not tell the whole story because we have 3 kinds of products: bricks, mixes, and flow control.

Flow control has the highest fixed cost. Bricks are the second category, and even not all bricks are the same. If you have a burnt brick, that is where it makes sense, and that is where you have the

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highest fixed cost. Therefore, you need to separate the categories.

All I can say is that the most expensive line of RHI Magnesita India is going to be fully booked for the next 2 years starting in October because of some of the coke oven orders we have received.

That is all I can confirm at the moment. We do not disclose these numbers at a product-group level because they contain considerable cost-competitive information.

Vedant Sarda: To double capacity in all the segments we currently have, would we need completely new land, or could we expand within the existing capacity?

Management: If we achieve a CAGR of 7% with a different product profile, I do not think we will need anything for the next 8-9 years.

We already have the product. For example, if you take mixes, which are high-volume and low-revenue products, you need only a garage-type space. A 10-car garage parking space is what you need. You do not need a lot of land or anything similar.

As I said, I do not think capacity expansion through brownfield or greenfield projects is the right strategy for our industry. There is enough capacity in the market. I think there is enough for everyone, including our competitors.

As an organization, we do not prefer to undertake capacity expansion through greenfield or brownfield projects at the moment. I hope that helps, Vedant.

Vedant Sarda: Thank you for the answers.

Management: You are welcome.

Operator: Thank you, Vedant. Next, we have a question from Gokul Maheshwari. Please go ahead.

Gokul Maheshwari: Thank you. My question is about 4Pro. Could you explain whether, within the total refractory solution, this is a higher-margin business for us? Typically, how long are the contracts, and how large is this for our business?

Abhishek Bajaj: Yes, Gokul, I will take the second question. When we go for 4Pro, we ask for a partnership. The contract period ranges from 1-3 years, depending on the customer and the portfolio.

Coming back to what we do, we invest in working capital and robotics. Initially, it is not necessarily a higher-margin business. It can provide an average margin for a steel customer, but what it gives us is an operational advantage.

I will take an example to give you the full perspective. In one of our plants, for example, let us consider Ambhalia. If I need to run a full kiln with a capacity of 1,000 tons per month, I need a certain amount of fuel and manpower. If I produce 600 tons, I need the same manpower; at 700 tons, the manpower requirement is the same; and at 1,000 tons, it is also the same.

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The 4Pro advantage gives us operational flexibility to time our purchases and time our resources, including kiln utilization, as illustrated by this example.

Therefore, while I would say that the margin remains broadly flat because we also need to offer competitive pricing, the second operational advantage gives us at least a 1-2% EBITDA benefit. If you combine both answers, yes, it provides a 1-2% EBITDA advantage.

Gokul Maheshwari: How large is this for us as a percentage of the overall business?

Abhishek Bajaj: Our 4Pro business is 33% of our revenue as of now. We intend to take it to 40% in the next 1-2 years.

Gokul Maheshwari: Secondly, you have made many acquisitions over the past few years, and there have also been a couple of tie-ups. Last year, you completed a small bolt-on acquisition. From a capital allocation perspective, do you want to digest these acquisitions over the next 3-4 years, or will you continue to look at expanding the business inorganically?

Management: If I understand your question correctly, we are open, but nothing is currently on the cards.

Our competition is also undertaking a lot of activities, including backward integration, tie-ups with ramming-mass providers, and acquisitions. As a company and as a group, we are open to anything. However, as we said, we believe in consolidation rather than greenfield expansion.

As Azim said, our capacity utilization is currently 67%. We have enough capacity, which means that over the next 3-4 years, our first target is to sweat our assets and take utilization up to 80-82%.

Unless we enter a different product line, we do not need to expand. We have many ideas internally. For example, we may pursue mineral sales. We have just made some structural changes relating to quartzite, and we can also sell these materials.

Gokul Maheshwari: Lastly, on the flow-control business, my assumption is that it is the highest-margin product segment. Could you give us some insight into the competitive scenario, our market share, the market leader, and whether we are gaining market share in this segment?

Management: In flow control, our market share is approximately 34%. Vesuvius and we are almost neck and neck.

As to whether we are gaining market share, the answer is yes. “Regaining” is the right word to use for our flow-control market share. We had lost some competitive edge, particularly in mini-steel or induction furnaces, about 1.5 years ago. We have completely regained that position and are making considerable progress here.

Gokul Maheshwari: Thank you very much, and all the best.

Management: Thank you, sir.

Operator: Thank you, sir. We have our next question from Lakshmi Narayanan. Please go ahead.

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Lakshmi Narayanan: Am I audible?

Operator: Yes, Lakshmi.

Lakshmi Narayanan: If I look at steel production for the last full year, it was in the double digits every quarter, whereas first-quarter steel production actually came down to single digits. How is it looking for the year, and what implication will that have for our business?

My second question is that raw material prices, including alumina and other materials, have increased. How is this affecting us? Are we able to pass on the cost to customers, and how is the competition reacting? Are they avoiding price increases? I would like to hear your thoughts on growth and margins.

My next question is about flow control. Is it correct that approximately 30% of your revenue comes from flow control?

Management: You asked several questions, and I will try to answer as many as possible. Lakshmi Narayanan, I can say that you are a keen follower of our industry because your questions are very precise. Compliments for that.

First, on flow-control revenue, it ranges between 33% and 34% of our revenue. That is a good ballpark figure for you.

The second part concerns the increase in raw material prices. There are 3 factors behind the increase.

First, the entire industry buys raw materials from China. You understand the foreign exchange movement, with INR versus USD. The INR has depreciated quite significantly, and this is the first impact, which we are not able to pass through to customers.

Second, you are absolutely right that alumina and magnesite prices have increased substantially. This is primarily because China used to have different daytime and nighttime electricity tariffs, but it has now harmonized them. There is no discount on the nighttime electricity tariff. This has increased the cost of production for magnesium and alumina. We can also buy locally, but the cost of magnesium sourced from China has increased.

The third factor is the Middle East war, which has increased container costs, logistics costs, and congestion at ports.

These 3 factors have increased costs. Coming to your very interesting but leading question about what competitors are doing, you are absolutely right that because of the additional capacity entering the market, we are seeing that costs are not being completely passed through to customers as price increases.

Having said that, I am sure you followed our Q1 results, where we were able to successfully discuss a wartime surcharge with our customers. We were able to do that because sometimes being large also helps. When the Gulf War erupted, several suppliers to the steel industry had to declare force majeure because of gas availability.

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Management: Their agility and their ability to ship some of the products were affected, but we had built resilience into our supply chain. Because of this, we were able to have a very good discussion with customers, supported by our long-standing relationships with them.

At least for one quarter, we were able to pass on these wartime surcharges. That is where we stand.

Those were the questions, correct, Lakshmi Narayanan, or did I miss anything?

Lakshmi Narayanan: I just wanted to check whether the situation in Q1 has changed, because things are still not normalized and costs still seem to be on the high side. What do you expect for the industry in this quarter and the next 2 quarters? How do you think the industry will perform?

Also, steel production is essentially an OPEX-driven product and is directly proportional or correlated to steel production. How are you thinking about organic demand as well as margins for the industry and for your company this year?

Management: For the industry, I think production will increase for sure. There are 2 positive developments in the steel industry that are absolutely welcome.

The first is the Production Linked Incentive scheme, which is ensuring that our customers, or the steel companies, are able to deploy their capex and increase production. They are producing because of the PLIs.

The second is the safeguard tariffs on certain specialized steel products.

These 2 factors are driving an increase in steel production. Cement also has Production Linked Incentives. Because of this, there will be an absolute increase in the production of steel and cement.

Lakshmi Narayanan: Production is increasing, but it has actually fallen from double digits to single digits. My question is whether this will continue in the current quarter as well, based on the [inaudible] demand scenario.

Management: Production has fallen significantly, particularly in the public sector, because of RINL. There was an incident involving one of the blast furnaces, which reduced its ability to produce. I am referring to the last quarter.

Second, you are absolutely right that there was also some demand slowdown.

Having said that, I cannot comment on future quarter-on-quarter performance because that is not how customers provide information to us. However, from a year-on-year perspective, they are expecting at least 6% growth in production.

They are fully committed to the long-term target, although not to the full 300 million tons of steel. The target is likely to be a lower number, but from a long-term perspective, they are absolutely tracking it.

Therefore, on a year-on-year basis, we are expecting at least 6% growth in steel production. That is what we see from our side.

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Lakshmi Narayanan: My question is about margins. For refractory companies, given that the various factors have normalized, do you expect margins to increase? You have guided to better margins, but what do you expect for the industry?

Management: Our first-quarter margin was approximately 14%, but I am still guiding to 13% because considerable capacity is going to enter the market next year.

Calderys is going to establish one of the largest refractory plants in the world, with a single plant of almost 240 kilotonnes. This means that in an already commoditized sector, where capacity utilization is already low, there will be significant pressure. Consider what the cement industry went through.

There will be substantial pricing pressure. Therefore, we need to wait and watch.

We believe we know what we are doing, particularly through 4Pro, operational improvements, becoming cost competitive, changing the product portfolio, and even exiting some businesses where we do not believe we can be competitive. These will be our decisions.

If you look at our year-on-year performance, our volumes have declined because we consciously stepped out of areas where we could not add value. We are not going to destroy shareholder value. We do not want to play that game. We want to operate in areas where we can provide shareholder value sustainably.

With that in mind, I would still say 13%, very conservatively. I know Vesuvius has reduced its numbers, IFGL has not reduced its numbers, and others have reduced their numbers. We are the only one showing gradual incremental improvement in margin percentage.

However, I would say that the capacity coming in next year presents a challenge. We are ready for it, but it is a challenge. Therefore, we want to remain conservative.

Lakshmi Narayanan: Thank you very much for this.

Management: It was a pleasure.

Operator: Thank you, sir. Any participant who would like to ask a question can raise their hand or put it in the chat box. We have a few questions in the chat box. I will read them one by one, and you can answer them.

The first question is from Mayur Chandnani: “Do you have products for the Electric Arc Furnace process, and are incremental green-steel targets a threat?”

Management: Do you want to take that?

Abhishek Bajaj: Yes. We are a leader in providing refractories for Electric Arc Furnaces, and this is one of our strongest areas as well. What is the second question?

Operator: “Are incremental green-steel targets a threat?”

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Management: Let me take this part. I believe it is an opportunity for us. We spoke about 4Pro, and one of the largest green-steel plants in India is Tata Ludhiana. We obtained this contract.

4Pro stands for 4 Ps: performance, product, people, and planet. In this case, we are able to establish a strong green supply chain for Tata Ludhiana, for which we are also providing carbon credits.

Therefore, it is not a threat for RHI Magnesita because we have the technical competency to provide a positive solution in this area.

Operator: Understood, sir. We have the next question from Vedant Agrawal: “Does the price of refractories move up in line with the increase in steel prices, or does the steel price have no impact?”

Abhishek Bajaj: I will take that. Honestly, not directly, but it does have an effect. When steel prices increase, there is momentum to obtain an increase in refractory prices as well.

Operator: Understood, sir. The next question is from Deepankar Bisht: “Can you please provide some insight into current capacity and capacity planned for the future?”

Abhishek Bajaj: We had given that answer. We are at 67% capacity utilization. If we assume that the market grows by 6%, we are targeting 6% plus 2%, or 8%. We have enough capacity for at least the next 3-4 years of demand.

Operator: What is our total current capacity, not utilization?

Abhishek Bajaj: Total capacity is more than 500 kilo—

Management: I think they are asking about the overall market capacity. Are you asking about market capacity or RHI Magnesita's capacity? RHI Magnesita's capacity is approximately 370-385 kilotonnes.

Operator: What kind of revenue do we expect in FY27 and FY28?

Management: We do not provide revenue guidance. We provide guidance on volumes.

As we said, we want to outgrow the market. Therefore, whatever the growth in steel consumption is, we want to achieve 2% more. The combined steel and cement volume growth or CAGR is approximately 6%, so we believe we can achieve 8% year-on-year volume growth, again on a medium-term basis.

Operator: Understood, sir. The next question is: “Among refractories, there are many products, including masses, slide gates, and several other SKUs. For a typical steel plant, which SKUs drive the majority of revenue?”

Management: It depends on the product portfolio you carry. From a revenue perspective, I would say that for us, the first category is bricks, the second is flow control, and the third would be mixes, or masses as they are called.

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However, it also differs based on seasonality because we carry such a large portfolio. That is how the revenue percentage is distributed.

Please remember that it matters where our product is applied. For example, in a furnace, you need both bricks and masses. Therefore, I do not know how you can derive further insight from this, but I have answered the question.

Operator: You have gained significant market share in flow control over the last year. How much of this was driven by better technology and performance compared with pricing or commercial terms?

Management: Flow control is an area where it is extremely critical that the technology works. It cannot be compromised because customers will not accept any safety risks. The technology must work.

This applies to large steel plants and similar facilities, where there is considerable discipline and very few players can offer this sustainably.

Coming to mini-steel, technology also matters, but purchasing decisions are based on commercial terms. These customers are willing to take some risk, whereas large players take less risk.

We have made progress, and let us divide it into 2 parts. In the mini-steel area, in terms of competitiveness and pricing, we were able to use our research and development team to adapt our recipes. This enabled us to offer attractive commercial terms to our customers.

In larger steel plants or integrated steel plants, we were able to further enhance our performance. That is how we have been able to regain our market share.

Operator: Compared with a traditional refractory supply contract, what is the margin and return profile of a mature 4Pro engagement?

Management: All I can say is that we do not disclose those numbers publicly because margin is commercially sensitive information.

You need to consider what a 3-year 4Pro contract means. As Abhishek said, 4Pro is a 3-year contract. As a buyer, I am taking 3 years of negotiation power from you.

Therefore, do not view 4Pro as a margin enhancer. 4Pro is intended to ensure that refractory demand is not commoditized or remains decommoditized.

The second aspect is that it is a volume-based partnership with the customer through which we can drive value.

There are multiple ways to improve margins. For example, if we have a long-term contract, we can undertake more experimentation and trials, obtain better product performance, and, most importantly, invest in technology—not only in refractories but also in robotics, automation, and digitization—so that the customer can achieve better productivity.

However, it is slightly lower than a normal direct or product-only supply arrangement.

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Operator: The next question is from Garvita Jain: "How have Chinese refractory and raw material prices moved over the last 2–3 quarters, and what is the outlook for the next 12 months?"

Management: Let me discuss this from a costing perspective. I answered part of this earlier, but I will be precise.

Costs have increased because of foreign exchange, energy costs in China, and, more recently, logistics. Costs are moving higher.

We believe costs were stable for the last few months, but they started increasing again after the Iran war. Let us put it this way: as in any other industry, there will be volatility. This is because of currency movements, energy costs, other geopolitical factors, tariffs, and similar issues.

This volatility will continue. No one can answer what the percentage increase will be or what the level of stability will be.

All I can say is that we have good scale because we do not buy only for RHI India; we buy for the entire global team. We receive the benefits of this scale, although there are some compromises.

Operator: We had a few more questions, but due to time constraints, we will have to close the call.

Management: Yes.

Operator: I would like to thank the management, on behalf of Arihant Capital, for taking the time to share insights about the company. If participants have any further questions, they can get in touch with the team at Arihant Capital. Thank you, sir.

Management: Thank you very much. Take care. Goodbye.

Operator: Goodbye.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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