21st November, 2022

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

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai 400 001
Code: 540774

Dear Sirs,

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

In compliance of above, please find enclosed herewith transcript of Earnings Conference Call on Company's financial performance for Q2/FY2022-23 held on Tuesday, 15th November, 2022. A copy of this is also being hosted on Company's Website: http://www.ifglref.com/earnings-call-transcript/

Thanking you,

Yours faithfully,
For IFGL Refractories Ltd.

MANSI DAMANI
Digitally signed by MANSI DAMANI
Date: 2022.11.21 12:46:53 +05'30'

(Mansi Damani)
Company Secretary
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Encl: As above

"IFGL Refractories Limited
Q2 FY '23 Earnings Conference Call"
November 15, 2022

Disclaimer: This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 15th November 2022 will prevail

MANAGEMENT: **MR. JAMES MCINTOSH – MANAGING DIRECTOR – IFGL REFRACTORIES LIMITED**
MR. KAMAL SARDA – DIRECTOR & CHIEF EXECUTIVE OFFICER – IFGL REFRACTORIES LIMITED

MODERATOR: **MR. SAHIL SANGHVI – MONARCH NETWORTH CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the IFGL Refractories Limited Q2 FY '23 Earnings Conference Call hosted by Monarch Networth 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 and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sahil Sanghvi of Monarch Networth Capital. Please go ahead, sir.

Sahil Sanghvi: Yes. Thank you, Chris. Good evening to all. on behalf of Monarch Networth Capital, we welcome you all for the IFGL Refractories Q2 FY '23 earnings call. We are delighted to host the management from IFGL today, and we have the Managing Director, Mr. James McIntosh; and the CEO, Mr. Kamal Sarda. So without taking much time, I'll hand over the call to Mr. James McIntosh for the opening remarks. Thank you, and over to you, James, sir.

James McIntosh: Okay. Thank you. Good evening, ladies and gentlemen. Thank you for joining us on the IFGL Refractories Limited Q2 FY '23 Earnings Conference Call. I hope you and everyone around you is safe and in good health. Along with me on the call, we have Mr. Kamal Sarda, Director and CEO of IFGL and SGA, our Investor Relations Advisors. We have uploaded the results presentation on the stock exchanges, and I hope everyone has had a chance to go through it. Let me start with the business highlights.

As we all know, the global economic environment has deteriorated significantly in 2022 as inflation risk fully materialized along with other major headwinds, namely the Russia, Ukrainian war, and China lockdowns. The Russia, Ukraine war exacerbated the inflationary pressure that was ignited by the post-lockdown supply and demand imbalances as the war disrupted energy and food supplies with a normalization of supply chains.

In particular, in Europe, we have dependence on Russian gas supply as high economic activities as well as confidence are heavily affected by the energy crisis. In the USA, the Fed's aggressive interest rate hikes and strong US dollar are propelling with recessions and will have a ripple effect on the rest of the world for capital outflows in the emerging economies, increasing the financial stress of embedded countries and consumers.

Rising interest rates and high inflation will affect investment and consumer spending. This will hurt and does hurt steel-intensive sectors such as construction, machinery, and consumer durables. As a result, the World Steel Association has revised the steel demand forecast down in its October short range outlook. The forecast for the top 10 steel nations show a short-range outlook for finished steel production, most nations showing contractions in 2022, followed by a slight correction in 2023 to some degree.

But two notable positives concerning our company are India, as the number two supplier or producer in the world. It grew is growing at 6.1% in 2022 and is predicted to grow by a further 6.7% in 2023, taking us to over 120 million metric tons. And the USA, where growth by 2.1%

in 2022 and then a further 1.6% in 2023 is predicted. As regards to our company, our new research and technology center in Odisha is on track to be operational in the first half of 2023. This technology center will enable us to develop better products and to increase our understanding of material use in each application with a goal of strengthening the company as a lot of rig supplier of specialized refractories and provider of services to the producers of iron and steel.

Phase 2 of our newest plant in Visakhapatnam is nearing completion and will allow us to enter new markets and the RHD gas snorkel and large precast shapes combined with our computational fluid dynamic capabilities. Many of the new products will be new to India, and will improve our customer process yields and our little margin contracts. In the USA, we've completed the relocation and modernization of our clay graphite manufacturing plant for foundry products in Michigan.

In the UK, our largely automated manufacturing system for activated gel casting project is almost ready to go with robots already installed and being programmed, allowing us to manufacture larger, more complex and higher-value products than before. Our new website is nearing completion to go along with the recently introduced corporate identity and is aimed at improving our interface with customers, prospective employees, suppliers and other stakeholders.

Going ahead, we expect with enhanced capability and new product introductions to improve the scale of the business, which will lead to operating leverage in the long term for the company. Well, let me now hand over the call to Mr. Kamal Sarda for his comments.

Kamal Sarda: Thanks, James for the quick overview. Let me give a short brief on the performance of the company. Our company recorded its one of the highest ever revenue in H1 FY '23 on the back of strong demand from India as well as some of the international businesses. Our EBITDA margins were impacted on account of sharp inflation, increased operating expenses and foreign exchange variations. However, we are taking several cost optimization measures by implementing automations at various stages, which will benefit us to improve margins.

Additionally, Indian demand remains a bright spot in the major steel market as the domestic consumption, as mentioned by James, is going to be very high in the next one year or so. So, also, in the coming months, a major catalysts in demand growth would be infrastructure investments, mainly ahead of the Indian elections in 2024. All these factors are expected to have a great demand of refractories and IFGL being one of the leading players is expected to benefit the same.

Let me give you an outline of the financial highlights of Q2 FY '23. On the stand-alone side, total income in Q2 increased by 8% on a Y-on-Y basis, while it was down by 3% on a quarter-on-quarter basis to INR 218 crores. EBITDA in Q2 FY '23 was down by 13% on a Y-on-Y basis, while it was 4% up on a Q-on-Q basis. EBITDA margins stood at 13.6%. PAT was down by 16% on year on year basis, while it was up by 17% on a quarter-on-quarter basis. On the consol highlights, total income in Q2 increased by 10% year-on-year, while it was down by 4% on a quarter-on-quarter basis to INR 345.6 crores. Consolidated EBITDA was down by 5% year-on-year, while it was up by 12% on a quarter-on-quarter basis.

Consolidated margins, EBITDA margin stood at 11.2%. PAT in Q2 was down by 3% year-on-year, while it was up by 34% on a quarter-on-quarter basis. On the liquidity situation, we remain debt-free with a strong balance sheet, with cash and cash equivalents standing at about INR 205 crores on consol balance sheet as on September '22. With this, now I will request people to -- if you have any questions, we'll be happy to answer. Thank you.

Moderator: First question is from Jainam Gelani of Moneybee Investment.

Jainam Gelani: Congratulations for having a great set of numbers. I just had one -- like two questions. So basically, what will be the capacity addition from a new capex at Kandla and Visakhapatnam? And initially, I guess, it was supposed to be over by quarter 1 of FY '23. So sir, could you please tell me what has caused a delay in our capex plans?

Kamal Sarda: So capacity additions in various plants there are several products which we are going into. The Kandla plant capacity is getting doubled in the isostatic refractories. And in the Vizag plant, in the precast shapes, we are talking of almost 800 tons per month, which is about 10,000 tons per year. And then the phase 2 will be coming. Phase 3 will be coming in casting flux, which will be about 14,000 tons per year. So I think some of these have got marginally delayed because of the ongoing COVID situations also, at that point of time and some delays have happened due to order finalisation. I think now it is on full track and it will happen as we have mentioned in the presentation.

Jainam Gelani: So we can expect that quarter four of FY '24, like end of FY '24 for them to -- operationalize?

Kamal Sarda: Yes. The final thing will happen in FY '24. But some of the other -- partly, some capacity expansions will happen before, like Kandla will happen by quarter one of FY '24. Then the Phase 2 of Vizag is going to happen in Q4 of FY '23 like that. There are a few various expansions going on at various stages. So they will happen in stages. The final thing will happen in FY '24, Q4.

Jainam Gelani: And how much revenue will -- like all these capex are there, you say, total by like?

Kamal Sarda: Generally, we can estimate anywhere between 3 to 3.5 times of capex.

Jainam Gelani: And sir, what is the export percentage of our sales this quarter?

Kamal Sarda: Around 50%.

Moderator: The next question is from Prachi Sharma of Ace Capital.

Prachi Sharma: I just have a couple of questions. Firstly, being debt is almost rising. It is more than twice of your pre-COVID time. What is the steady state debt in your opinion? And how do you see it progressing over the coming years?

Kamal Sarda: I think debts are rising in terms of only working capital debt, which are there. It's primarily because of a huge inventory build-up and some of the debtors, we had delays in usual debt. And then overall, our volume of business has also gone up in the last one, one and half years. So these are linked. We cannot estimate what will be the basic debt levels.

Prachi Sharma: So my next question is, is there a possibility of Krosaki selling their approximately 15.5% stake in the open market?

Kamal Sarda: We don't know.

Moderator: The next question is from Deepti Kothari of Kothari Securities.

Deepti Kothari: My first question was can you share which are a top five clients and what would be their approximately revenue contribution?

Kamal Sarda: I said we don't have the ready figures with me right now.

Deepti Kothari: And sir, can you tell us what could be the sustainable level of EBITDA margin on standalone and consolidated levels?

Kamal Sarda: Anywhere between 14% to 17%.

Operator: The next question is from Akash Mehta of Capaz Investments.

Akash Mehta: Can you provide a breakup of the revenue in terms of domestic and export for Q2 FY '23?

Kamal Sarda: I think I mentioned in the previous call, it's almost 50% of export.

Akash Mehta: And just as a general flavour, how is the domestic market compared to the international market, which is performing better for us, at least some colour on that?

Kamal Sarda: Yes. In this quarter, the domestic market was better than export because export has slowed down a bit.

Akash Mehta: And on that front, any future outlook on our three international subsidiaries?

Kamal Sarda: Jim, I think if you can take this call?

James McIntosh: Yes. I mean, obviously, the two European subsidiaries, Monocon in the UK and Hofmann in Germany. We believe the next quarter will be quite challenging from the point of view of the market because a lot of the European steel industry has reduced output. However, there are a couple of things which may help the results and that is that with the reducing freight costs from

China and having our manufacturing sources for the UK company in China. There will be a boost from business, which we expect to grow again given the fact that we were not able to do that business during the high freight rate saturation. And then the foundry industry, where Hofmann and Germany is concerned, we have seen an uplift in some of our higher-value product areas, which is to be a benefit. So we feel that the overall result in the European businesses will be slightly below, but still a reasonable good figures. For the USA, we think, again, there's a bit of a slowdown at the moment on the steel making front. However, we have had some very good success in the EI Ceramics, especially in the last two months with turning in very good profitability figures, and we expect to see that continue in the future.

Moderator: While we wait for the queue to assemble, Sahil would you like to ask some questions

Sahil Sanghvi: So my first question is, if you look at the consolidated cash flow, I think we had a capex outflow of around INR 50 crore, roughly in the first half. And similarly, in the standalone valuation, we see about INR 25 crores, INR 28 crores kind of a number. So could you please elaborate where the capex has been put in for the -- I mean, outside the standalone business? And what are we -- I mean, what is the purpose? And what are we expecting from there?

Kamal Sarda: Jim would you take the call on the international capex?

James McIntosh: Yes, the international capex, I covered the maybe briefly and what I was talking about, but we have a few areas that we've been working on and our plant in Germany. We have an expansion project going on where we are expanding the size of the manufacturing hall and this will declutter more than add capacity at the initial stages. And the British company, Monocon, we have a project for the activated gel casting system, which is our precast shape manufacturing center. And that's coming along nicely. We expect to finish that early in 2023.And in the Americas, we had a complete relocation of gray graphic manufacturing process, which is a manufacturing process used to manufacture products for the foundry industry in America from Ohio to Michigan. And we have some expenditures on just upgrades in equipment for EI Ceramics.

Sahil Sanghvi: So is it fair to say that Hofmann and the EI Ceramics, they're operating at optimum utilization right now? What would be the rough utilization level?

James McIntosh: Yes, Hofmann, I would say, is operating at fairly close to utilization levels. But we -- in the past, we have another plant in the Czech Republic for Hofmann, which in the last couple of years, during COVID, we were not really concentrating too much on the manufacturing side. This period of time, we are looking at – we continuing the manufacturing in the Czech Republic, which will give us additional capacity. So for Hofmann, we do expect to see some growth in the future.

Sahil Sanghvi: Just very briefly on Hofmann, we have been crossing margin levels of more than 10%. So what could be sustainable margin levels over year -- and volatile – yes?

James McIntosh: And Hofmann, no, I don't think there's been volatility in the Hofmann figures month-on-month. Actually, in the last year, every year and during the quarter, the Hofmann results have been very consistent in profitability. We did have some volatility in EI Ceramics figures. But as I mentioned over the last 3 months, EI Ceramics has returned to producing very consistent profitability -- figure. And that's largely the result of the higher consolidated figure that you see in the results. So now, we're very happy about the way things are going actually in both Hofmann and DIC.

Sahil Sanghvi: That's a very elaborate answer. So one more question I had on the overall financials. So we have been able to achieve a bit of margin expansion this quarter. So how are things moving on the raw material cost and overall realizations? I mean, any direction on that front?

Kamal Sarda: So raw material rates are mainly, there has been impact of the ocean freight of the inward ocean freight of the imported raw materials. The domestic raw material rates have not come down. None of the domestic raw materials have come down. It's only the ocean freight, which is mainly the reason for lower. But it has also impacted, it has been also impacted by the rupee depreciation because we import majorly in dollars. So there has been some easing of the raw material costs, I would say, mainly because of the ocean freight coming down significantly the last four, five months.

Sahil Sanghvi: And on the realization front, are the customers asking for price correction?

Kamal Sarda: Yes, there are, I think, serious requests by the customers or, and we are in discussions with them, showing them figure that the things are not that what they are trying to think. But then the discussions will take time. But there will be some corrections also.

Moderator: The next question is from Aditi Sawant of ADM Advisors.

Aditi Sawant: I have a couple of questions. First is, could you give us the revenue EBITDA and PAT for three subsidiaries for this quarter? And second question is, do you further see our EBITDA margin compression in view of rising inflation going ahead?

Kamal Sarda: Sorry, on the individual subsidiaries, I don't think we'll be able to give you any further details on what is presented in our presentation. So going into that granular level, we thought that it is not required. So what was your second question?

James McIntosh: On the inflationary aspects of -- for the subsidiaries.

Aditi Sawant: Do you further see EBITDA margin compression in the view of rising inflation going ahead?

James McIntosh: Yes. I think that -- I mean, of course, in the European and American markets, there is very high inflation for sure. However, we have been quite successful in achieving price increases to cover these inflationary pressures. So we do not see that the EBITDA will change too much.

Aditi Sawant: Just one last question. What is our working capital cycling days has followed in a general industry? And where do we stand?

Kamal Sarda: Generally, the working capital cycle will be about four months. I think compared to what you see, our working capital cycle could be slightly longer because we deal, majorly, 50% our sales are in exports. So in the realization in exports are slightly longer when you talk of the transit time and all. But in the Indian context, I think we would be comparatively better off.

Moderator: The next question is from Raj Joshi of Ace Securities.

Raj Joshi: Sir, what do you plan to do with the excess of cash on the books? And how do you plan to utilize the same?

Kamal Sarda: We have a big capex plan as of now. So partially, it will be met by the term loan, but partially from our internal cash which we have. And further, I think, we have kept that for any future requirements.

Raj Joshi: And sir, can you also provide us with your current order book position as on 30th September?

Kamal Sarda: Order, I don't think we have any issue with the orders. We don't maintain an order book as such. But we don't have any issue for the order, and our orders would be there. Only thing is that some of the countries where there's an issue of energy and all, there's a slowdown in Europe and some of the other countries. So there, the orders are slightly less. But otherwise, Indian market is very good. So we have sufficient, we have a regular order. We don't get 12 months or a 14 month type of orders by now, but our orders are consistent.

Raj Joshi: Can you quantify in terms of number?

Kamal Sarda: No. It's not possible that way.

Moderator: Our next question is from Mohit Rathi of CCIPL.

Mohit Rathi: Sir, I wanted to understand that, sir, have we added any new customers in India in the last quarter or even this financial year?

Kamal Sarda: No, not really. I think we are there almost on all the customers in India.

Mohit Rathi: So in that case, there is only scope for additional business from existing customers since we have already penetrated the domestic market?

Kamal Sarda: Yes.

Mohit Rathi: And sir, lastly, sir, if you could just give us some idea, sir, that our stock price is trailing below book value and we all know that the market price of the assets of the company will be far higher than the book value. So basically, when the company is having excess cash and has no debt at all on the book, so then why don't we use this opportunity when our margins are under pressure to buyback and extinguish our shares? So that in future, our earnings per share can grow faster than the profits of the company and sir, also it is far more tax efficient than the dividend. So the dividend can be adjusted with a share buyback. So any thoughts on that?

Kamal Sarda: See this question has been coming to us possibly in every meetings we have with the analysts or investors. But the cash which we have is to increase the value of the company by maybe adding capex or adding capacities or maybe looking for an acquisition at a later date. If we get tomorrow, when we have an acquisition ready, we may not have the cash readily available. So that's the reason why we have kept the cash. We don't intend to do any buyback immediately.

Moderator: The next question is from Abhishek Dave of Bright Securities.

Abhishek Dave: I wanted to ask, can you please share the capacity added in metric tons?

Kamal Sarda: In our Kandla plant, it is a number of pieces. We have the current capacity in 20,000 pieces per month. It will go to 40,000 pieces. And in Vizag, the phase II expansion will add 800 tons per month. And the phase III expansion will add about 1,200 tons per month.

Moderator: And the next question is from Riya Verma of NR Securities.

Riya Verma: I have two questions. Firstly, to meet our guidance of INR 1,600 crores in FY '25, a percentage of garment sales has to be 25%. So what is the incremental capex that we will incur with that? And also what is the current…

Kamal Sarda: Please come again with the question?

Riya Verma: Yes. So I was saying to meet our guidance of INR 1,600 crores, our percentage of garment sales has to be closed to 25%. So what is the incremental capex that we have to incur for that? And what is the current capacity utilization of garment business?

Kamal Sarda: Where did you get the INR 1,600 crores guidance, which we have. I think the company has not given any such guidance.

Riya Verma: Sorry, that’s a little mixed up. I'm asking the revenue growth led by price growth or volume growth? Is the revenue growth led by price growth or volume growth?

Kamal Sarda: I don't have the breakup as such. But there has been a significant volume growth in this period, but I don't have that kind of a breakup between the price and volume, honestly.

Moderator: As we have no further questions, I would like to turn the call back to management for some closing.

Kamal Sarda: Yes. So Jim, I'm giving the closing remarks. Thank you, everyone, for joining in this earnings call. I hope we have been able to answer most of your queries. We look forward to your active participation in the subsequent calls. For any queries or any questions you may have, you may contact SGA, our Investor Relations advisor. Thank you very much, and have a nice day.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Monarch Networth Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.