RHI MAGNESITA

**RHI MAGNESITA INDIA LIMITED**
19th & 20th Floor,
DLF SQUARE, M-BLOCK, PHASE-II,
JACARANDA MARG, DLF CITY,
GURGAON- 122002, HARYANA, INDIA
T +91 124 4299000
E corporate.india@rhimagnesita.com
www.rhimagnesitaindia.com

13 November 2024

To,

**BSE Limited**
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400 001, India
**BSE Scrip Code: 534076**

**National Stock Exchange of India Limited**
Exchange Plaza, Plot No. C/1, G Block,
Bandra Kurla Complex, Bandra (East),
Mumbai – 400 051, India
**NSE Symbol: RHIM**

Dear Sir/ Madam,

**Sub: Transcript of Conference Call – second quarter and half year ended 30 September 2024**

Pursuant to the Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015, and further to our earlier intimation dated 5 November 2024, the transcript of the conference call held on 8 November 2024, for discussing the earning performance of second quarter and half year ended 30 September 2024, is annexed herewith.

The same will also be uploaded on the Company's website at the below link:

https://www.rhimagnesitaindia.com/investors/investor-meet

Kindly take the same on record.

Thanking you,

Yours faithfully

For **RHI Magnesita India Limited**

Sanjay Kumar
Digitally signed by Sanjay Kumar
Date: 2024.11.13 18:15:47 +05'30'

Sanjay Kumar
**Company Secretary**
(ICSI Membership No. -17021)

# "RHI Magnesita India Limited Q2 FY'24 Earnings Conference Call"

November 08, 2024

**MANAGEMENT:** **MR. PARMOD SAGAR – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – RHI MAGNESITA INDIA LIMITED**
**MR. AZIM SYED – CHIEF FINANCIAL OFFICER – RHI MAGNESITA INDIA LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the RHI Magnesita India Limited Q2 and H1 FY 2025 Earnings Conference Call. As a reminder, all participant lines will be in a 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. Parmod Sagar, Managing Director and Chief Executive Officer from RHI Magnesita India. Thank you and over to you, sir.

**Parmod Sagar:** Thank you very much ladies and gentlemen. Good afternoon and thank you all for joining our earnings call. We greatly value this opportunity to further strengthen our relationship with you all.

The Indian economy has shown satisfactory performance in the first half of the current fiscal year. However, we have seen many of the economic indicators testing a weaker environment. It is important to closely monitor the demand condition in the economy as this will be key driver for our customer ambitious growth and commissioning plans.

If we talk about market challenges and opportunities, the global steel industry has faced a decline in production due to reduced output in key markets. While India has seen growth driven by domestic consumption, increased import, and lower export has made India a net steel importer. Steel customers have been facing a dynamic market impacting incremental capacity commissioning, affecting the overall demand by the factories.

Meanwhile, the cement industry has seen slowdown. However, the outlook for the latter half of the fiscal year remains positive, with anticipated growth led by our customers' planned commissioning of their projects and infrastructure initiatives. I am happy to share that the strategic initiatives that we have been undertaking are giving us fruits, building sustainable growth.

We have a strong order book in the iron, pellet, DRI making business. In iron making, we have seen a good order momentum in Blast Furnace Cast House. We have four contracts and added six new customers in Taphole Clay. In pellet and DRI, we have received orders from one of the largest pellet plants in India, and have increased our DRI market share on the backup of kiln orders and three new projects.

We are also in advanced discussion for long-term association with OEMs for coke oven and blast furnace stores. We should strengthen our order books in the coming quarters as well. We are proud to announce that we are establishing our first center of excellence for iron making in Jamshedpur. This facility strategically positions to leverage growth in the rapidly expanding blast furnace segment. We will incorporate advanced automation and tailored solutions. We expect this to be fully commissioned by 2027 with about 10,000 metric tons of expected capacity.

By enhancing our capabilities, this center will position RHI Magnesita for sustained growth and long-term value creation in a dynamic industrial landscape. We view this as a major leap forward in process automation and operational efficiency.

Our strategic initiative has allowed us to navigate dynamic markets. Coupled with our strong fundamentals and market leadership position, we have a solid foundation for sustainable, profitable growth. We remain committed to aligning our capability with evolving market conditions to strengthen our market leadership position and create long-term value for our shareholders.

With our full product portfolio and good geographical reach, I believe we are well-positioned to capitalize the anticipated demand scenario. As we move forward, we are optimistic about the opportunities ahead and significant role we will continue to play in supporting India's manufacturing goals with a focus on sustainability and secular economy.

Thank you very much. Now I will hand over to Mr. Azim Syed, our CFO, to talk about some numbers and all.

**Azim Syed:** Thank you, Parmod ji. Hello and thank you all for joining us. As we navigated a challenging market environment, with India becoming a net importer of steel this year, we faced competition from lower-priced refractories entering the Indian market.

These pressures and limited new commissioning have impacted revenue growth. We have seen a growth in shipments of 4.8% quarter-on-quarter. In Q2 FY 2025, RHI Magnesita India reported revenue from operations of INR 867 crores, a 1.3% decline quarter-on-quarter. The EBITDA for the quarter was at INR122 crores with margins at 14.1%, increasing raw material costs, especially for alumina-based materials and chromite sands exerted pressure on margins.

In H1 FY 2025, revenue from operations reached INR1,746 crores, a decline of 8.8% compared to H1 FY 2024. The product mix and the customer environment leading to a lower realization reflecting our current environment.

The EBITDA for the first half year was at INR279 crores, while EBITDA margins improved to 16%, up from 14.9% in the previous corresponding period. The margins have been resilient in line with our medium term expectations despite rapid increase in raw materials, particularly in the alumina-based material as mentioned before.

Together these factors contributed to a profit after-tax of INR119 crores with our PAT margins reflected 6.8% in H1 FY 2025, up by 0.6% from previous corresponding period. We are proud to inform that due to operational efficiencies in first half of the year, we managed to reduce our net debt EBITDA ratio to 0.3x from 0.6x in the beginning of the year.

In terms of volumes, we produced 86.2 kilotons in Q2 FY 2025 compared to 77.8 kilotons in Q1 FY 2025, higher by 10.8%. Shipment volume was at 119.4 kilotons in Q2 FY 2025, vis-à-vis 113.9 kilotons in Q1 FY 2025. Notably, our Jamshedpur facility saw an increased production driven by demand for certain products, reflecting our strategic alignment to evolving market needs.

Capacity utilization also improved to 67% in Q2 FY 2025 from 61% in Q1 FY 2025, highlighting our ongoing operational enhancement and efficiencies in the acquired plants and the shipment growth that we did.

Overall, RHIM's H1 FY 2025 performance reflects resilience in the face of market pressure and a strategic emphasis on operational efficiency. As we adapt to shifting dynamics, our cost management and production optimization will be vital for our growth in the coming periods.

We remain committed to delivering value for our stakeholders and pursuing sustainable growth and better return ratio. Overall, as we adapt to shifting dynamics (inaudible) -- I will hand back to the operator for Q&A then.

**Moderator:** Thank you, sir. We will now begin the question-and-answer session. We have the first question on the line of Jonas Bhutta from Aditya Birla Mutual Fund. Please go ahead.

**Jonas Bhutta:** Hi, good afternoon, gentlemen. At the outset, wishing you guys a Happy Diwali. Couple of questions. Firstly, if you can help us better understand the volume mix, how much percent of our sales in the second quarter and the first half was driven by iron making, which apparently is slightly lower realizations. So, how much of that impacted our realizations and margins?

The second was, you know, we were on this journey to reduce imports of key raw materials. Where in the cycle are we currently in that process? Because what I saw was the purchase of traded goods was materially higher, both on a Q-o-Q basis and on a year-on-year basis in the second quarter this year. So, that's the first question and then I'll come back for the second once we're done with this.

**Parmod Sagar:** Thank you very much, Jonas, for your question and Happy Diwali to you and your family as well. As you rightly said, yes, we are growing rapidly at a good pace in iron making, pellet, DRI business and it is still a small business if we talk in totality and it is about 6% growth, okay?

And there is also a good volume in cement, which also has a lower realization. So, this has impacted when we talk about realization -- per ton realization or revenue at large, because the selling price is low in this high alumina cement. And what was the second question?

**Jonas Bhutta:** The imports, sir, our strategic intent was that progressively reduce imports. While, if I see the purchase of traded goods as a line item, that's materially increased this quarter.

**Parmod Sagar:** This is -- which is one-time impact, I would say. There's a change of incoterm and we have a lot of material in the pipeline, I would say, but it doesn't have any long-term material impact. Do you want add anything?

**Azim Syed:** Yes, I think you summarized it well. So, Jonas, this basically is, we had a change in the accounting interpretation of our incoterms, so which kind of have a one-time impact where we were able to recognize the volumes, which were goods and transit. And so this is a one-timer, I wouldn't -- I don't think it's a long-term sustainable stuff. Our local-for-local percentage production, percentage remains constant.

**Parmod Sagar:** And in future, as I said earlier, we want to increase our local-for-local production and reduce our reliability on imports. But as we keep on saying, it will not be and it cannot be 100% local-for-local. We are reducing -- maybe two years back, it was 40%, 45% import, now, it has come down to 30, 35%. And in coming days, it will further come down. And our target is to take it to 80% roughly for local-for-local production.

**Azim Syed:** And just to clarify my comment, just to be sure that incoterms is only on purchase and goods in transit and not on revenue. So, there is no revenue impact there on the volumes.

**Jonas Bhutta:** So, could you quantify that one-off impact that was there?

**Azim Syed:** Jonas, we don't give that kind of a certain detail. But we would probably say it's close to about six-digit numbers, you can say, from a value perspective. But we don't give this breakup as you know, because one-timer kind of, allows that distinct.

But to answer your question on the local for impact capacity utilization percentage, we still remain the same. As I mentioned in my remarks, we had an increase in capacity rather than a decrease in capacity utilization. So, I think that will form a good baseline from your modeling perspective.

**Jonas Bhutta:** Okay, fair. The second point was to understand since we're calling out for recovery in the second half, and given that the order book also you mentioned is more iron making and cement-heavy, what should we read through for that on the impact of that on margins? So while volumes may recover, how should we think about margins? Do we see margins in more or less the same band given the sales mix is going to be iron and cement-heavy? That's the first part of the question. And then I just have one more sub part.

**Parmod Sagar:** Okay. So Jonas, it is -- I'm saying this iron making and cement, but at the same time, as I said in my speech also, there are some commissioning happening. So, two steel plants are going to commission their expansion, SMS4 or XYZ. And one plant in December is also going to commission where we have almost a 70%, 75% share, right?

So our growth depends upon also growth in steel industry, expansion of steel capacity. So, it's not only relying on iron making and cement, but in totality, steel will still be a major part of our growth story. So, when I'm talking about this, so it will not have any adverse impact on our profitability at large. So whatever is my guidance to the market in my earlier statements also, I still maintain that, we should be delivering around 15% margins on sustainable basis.

**Jonas Bhutta:** Understood. And the last bit on the margins was the volatility of lead that we've seen in Alumina prices. If you can help us understand how the pass-through mechanism works, particularly when you have almost 40-50% of your sales coming from TRM, in such a scenario, how does the pass-through mechanism typically work? And what is the lag or lead time that allows you to sort of pass on these prices? Is it same quarter or, does that happen over like a three to four quarter period?

**Parmod Sagar:** First of all, this is not 40-50%. If you talk about only steel, yes. But in totality, it is about 30%, right? So as you rightly said, yes, we have a long-term commitment, and it will always have a lag. We will negotiate, it will take two, three months, but when that round year price goes down, it also takes two, three months to reduce the prices. So it is zero net impact, I would say. But it will take time.

And as we keep on saying from last few days, the market is really dynamic. Steel plants are under pressure. If you remember, Mr. Narendran, CEO of Tata is saying, it is not justifiable to invest if the pricing will remain like this for long-term. And we need to look at import from China. And how we can have that enterent to stop that or reduce that impact?

So you must understand if steel plants, cement plants are under pressure on pricing part, to getting price increase will not be a cakewalk. It will happen, but we need to really put our efforts. And it will take time. So I cannot comment whether it will happen in next four weeks' time, six weeks' time. It may take two, three months also. But it will have a long-term impact and we will also keep on having this pricing when the raw material prices come down. So it will be compensating that.

**Jonas Bhutta:** Sure. This is helpful. I have more questions, but I will join the queue. Thank you and all the best.

**Parmod Sagar:** Thank you so much, Jonas.

**Moderator:** Thank you. We have the next question on the line of Rajesh Majumdar from B&K Securities. Please go ahead.

**Rajesh Majumdar:** Yeah. Good afternoon, Parmod and good afternoon, Azim. First of all, let me laud you on the commendable job that you have done on the cash flow side, because I think that there has been a substantial improvement in the cash flow for operations, debt, as well as the net cash we have on the books.

**Parmod Sagar:** Thank you.

**Rajesh Majumdar:** So that's a positive for me. But having said that, I had a couple of questions on the volumes, if you look at the volumes of 2Q versus the volumes of 2Q last year, there's a 7% decline on the shipments, whereas in steel production is up about 6% to 7%. So while the margin factors are different, the overall volume would seem to suggest that we are losing market share in the steel business, or is there something that I'm missing out? That's the first question.

**Parmod Sagar:** Okay, let's answer your first question first. So first of all, this 6-7% is a fictitious number, which is roaming around in the market. It doesn't have any substance, right? We have a calculation. If you check JSW's announcement, it is 2.7% growth in steel in India. And we have our calculation 2.9% growth, right? And out of this 2.9%, if 30% of my business is in TRM business, where the volumes are static, more or less, they can have an incremental growth of 0.5%, 1%, because they are working at a capacity level. So I don't get that volume increase from those plants. So the rest is, we are trying.

As I said, the commissioning, which was supposed to happen from June-July, it is postponed to November-December. So that impacted us, because our growth will come from steel growth. There are many cement plants also. Everybody is talking about, bringing new capacity, but it will happen in future. It doesn't happen in the last four, five months' time. And if you talk about last quarter, our volume has gone up by 5%. So we think we are on the right track.

Yes, of course, when you are having a lot of pressure from neighboring country, China, on commodity business, particularly ladle business, and they are dumping like anything, they are selling at $650, $700 CIF. So either I reduce my margin and compete in that commodity market, then we will say, okay, the margin has come down.

We are maintaining the margin at the cost of a little bit of volumes. And we are working on that in last call also I said we are working on mitigating that risk, or we can compete in that market also, bringing new technology or higher life of the ladles, where we can have a per ton or per heat cost coming down. And we can compete.

And we are working on that, and you will see in coming days, we will get this business, which we intentionally did not go into prize war to get those businesses, just to maintain a standard margin, sustainable margin, which we gave the guidance to the market.

**Azim Syed:** And on top of it, as I'm sure it's public news that Jayaswal Neco had a couple of month's shutdown, and we had one month shutdown of JSW RAIGARH and Tata Long Products. So this also contributes quite a bit of the volume decline as well.

**Parmod Sagar:** Yeah, and these four plants, we were having a FLS contract.

**Azim Syed:** Yeah.

**Parmod Sagar:** If Neco is shut down for two months, and our revenue is, say, roughly 1 million per month, so 4 million plus 3,500 ton is gone only in one plant.

**Rajesh Majumdar:** Right. And sir my other question was, how do we read into the standalone revenue and margin fall? Because I can understand that cement was impacted, so consolidated results were impacted, but still in Dalmia, you're having a 10% kind of margin, which is fine.

Dalmia is recovering from very low utilization. But at the standalone level, we've seen a 4% kind of drop in margins and 10%, sorry, 5% drop in the revenues and a price realization drop as well. How do we read into this? Will there be a commensurate price hike this quarter, to compensate for the RM increase or how?

**Azim Syed:** Yeah. So as I told you many times, we don't look at individual legal units, because we bought this additional capacity product portfolios to serve our customer. We always look at from an integrated customer perspective.

In fact, we don't go to JSW and say that, hey, this is ex-Dalmia plant, ex- Jamshedpur plant, or ex-this thing. So I just wanted to look at the number holistically, because what we do is quite a bit of production optimization, so that we can manage our margins through better recipe optimization. And this also creates kind of a good competition amongst our plans to be cost competitive. That's the first thing, just a little bit of insight.

Second, I'm sure you're aware that from a TRM percentage perspective, historically we were stronger in the standalone one. So we already explained that some of the TRM contracts, we kind of had a little bit of a headwind that kind of caused the revenue drop. And I wouldn't read too much into realization rates, because of our production optimization capacity, Rajesh. Hopefully that kind of gave you some bit of a background.

**Parmod Sagar:** And the margin, what you're talking about 4% EBITDA gone down it's just not right. We have delivered 14.1% EBITDA. So we believe, under the circumstances with headwind from raw materials and downtrend in general, the product mix was also tilted towards cement where the realization is less. I think we have done a commendable job. We are really satisfied with our results, I would say.

**Azim Syed:** I concur with you, Parmodji, because normally people always compare us with our peers. Now nobody's comparing, unfortunately, which is fair, because we said, we should not compare our business. But from a volume, from a sustainable growth and margin perspective, I think our numbers would speak louder.

**Parmod Sagar:** Yeah, even if we talk about competition, which you people are referring to, they have this number. Now their number is much lower. If we also check our segment and ours is still 18% in flow control. So we are on the right track, I think, and sustainable track, I would say.

**Rajesh Majumdar:** Right. So just to conclude this discussion, you're still giving a longer term buy-in of 15% to 16%, right? That is sustainable.

**Parmod Sagar:** Yeah, 15% is our guidance to the market.

**Azim Syed:** Yeah. 15% definitely. We are not changing our guidance.

**Parmod Sagar:** And would you give any revenue guidance as well, longer term?

**Azim Syed:** We never give revenue guidance, as because if you start talking about that, we have such a large, broad portfolio, project-based business and so on and so forth. We never give this thing.

**Parmod Sagar:** What Azim is saying is very valid. But you must understand when we gave last year revenue guidance and raw material prices tanked, 20% less raw material prices. Selling price goes down and then our guidance was gone haywire. So now the raw material prices are going up. So it is perceived that, selling price will also go up. We will get price increases sooner or later. So revenue will go up for sure. But at this point of time, it is very difficult to you know quantify the numbers.

**Azim Syed:** What we can say is that, what we have told before, we will grow with the market. If those relative percentages are not correlating, then definitely you will have a cause for concern. But as you can see, we have continuously demonstrated that we are able to grow with the market.

**Parmod Sagar:** And Rajeshji, you must keep it in mind this is not only RHI Magnesia India. It is at large refractory industry. So if the price increases of raw material is happening, it is impacting everyone. So you can see, if I have a margin of 15%, 14% to 15%, the people who is having 10%, 12% margin, their margin will be in single-digit. So everybody will strive for price increase. So when the total industry will ask for price increase, it will happen sooner or later.

**Rajesh Majumdar:** Right, sir. And if I could sneak in just one last question, is there any inflation in Magnesite prices right now? And will that be beneficial for us?

**Parmod Sagar:** Definitely, we can see the indication that basic raw material Magnesia, raw material prices are also going up, not in a pace like the high Alumina, but sooner or later it will also go. And it is good for the industry.

**Rajesh Majumdar:** Right. Okay. Thank you. I'll join back in a bit.

**Parmod Sagar:** Thank you.

**Azim Syed:** Thank you.

**Moderator:** Thank you. We have the next question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

**Saket Kapoor:** Namaskar, sir and thank you for the opportunity. Sir, firstly, on this Alumina part of the story, if you could give us how our product mix be there that required higher of Alumina requirement. And going ahead, how will this content of Alumina remain or how much increased percentage is there since you have mentioned in your opening remark also higher percentage of Alumina in the product mix?

**Parmod Sagar:** All flow control products, maybe 80-85% flow control products are based on high Alumina raw material. Okay. And all cement bricks-- Alumina -- high Alumina cement bricks are based on Alumina based raw materials. So, this is quite a big chunk. And it will have a material impact on profitability if we were not able to pass on this to our customers.

**Saket Kapoor:** Okay. Okay, sir. Sir, can you quantify it out of the, because since it is difficult, because it is product base…

**Parmod Sagar:** Very difficult. As of now, it is very difficult, but we can calculate the number and can get back to you in coming months.

**Azim Syed:** What we can say is that you can look into London Metal Exchange. They have quite a bit of good commodity market information on Alumina.

**Parmod Sagar:** No, no. He is asking, what is our percentage of high Alumina product.

**Azim Syed:** Okay.

**Parmod Sagar:** So, we can get back to you, but as of now, we do not have that number.

**Azim Syed:** Because the range is so high.

**Saket Kapoor:** Okay sir. So, you are articulating to the fact that the higher cement capacity that are being contemplated, being planned by cement manufacturers will lead to higher content of bricks, higher requirement for bricks and having higher Alumina content. So, this story for the cement capacity going up will automatically lead to higher demand of this specialty type of brick and then the Alumina. This is what the understanding is.

**Parmod Sagar:** Yeah, to some extent, you are right. But at the same time cement plant to cement plant, it's a variation. Some people are using basic bricks. Some people are using high Alumina bricks. So, it is again a combination of both types of products. But to some extent, yes, if people will come up with a high Alumina base cement plant, then definitely this demand will go up and more consumption of high Alumina products.

**Saket Kapoor:** But sir, just to conclude it, there must be the benefits that cement manufacturers will get when they move or shift to higher Alumina based bricks.

**Parmod Sagar:** No, it is actually other way. People who want a longer life of their kiln, they go for basic refractory, magnesia-based refractory, not alumina-based refractory. For example, if magnesia-based brick is selling at a price of say INR 90,000 a ton, higher alumina brick is at INR 40,000 a ton.

So, there is a difference. So, the life is also like that. So, it depends upon their working capital, their projections, how much they want to spend on kiln upfront, right? And volume, capacity of the kiln, big kiln normally is a basic, smaller kiln is high alumina. So, it depends with various combinations.

**Saket Kapoor:** Sir, when you mention system flows, what are you referring to, requirement into system flows?

**Parmod Sagar:** Flow control. Flow control is basically what our peers, Vesuvius, etc., are producing, IFGL is producing, isostatic based products, slide gate refractories, purging refractories, those are the products, which we call functional products or flow control products.

**Saket Kapoor:** Okay. So, our mix is lower in that. I missed your comment. What were you referring to, sir?

**Parmod Sagar:** No, no. I am saying we are also impacted by that, because whether anybody, whether Vesuvius, IFGL, us, we will produce, if it is, 60% of or 80%, 85% is alumina-based products and of that 85%, 60% is raw material. So, it has a material impact on our costing if we were not to pass on the margins to price increases to our customer, it will have impact on our margins.

**Saket Kapoor:** Right, sir. And on the employee cost, sir, as a percentage of sale or on a fixed cost basis, what should be…

**Parmod Sagar:** It is still very well under control, I would say. I don't want to comment on anybody. If you check with my peers, our competition, we are at the lowest level. We are still in a single digit. [RHIM India Limited]

**Saket Kapoor:** Thank you, sir. And looking forward and all the best to the team. Thank you.

**Parmod Sagar:** Thank you.

**Moderator:** Thank you. We have the next question on the line of Sahil Rohit Sanghvi from Monarch Networth Capital. Please go ahead.

**Sahil Sanghvi:** Good afternoon, sir. And thank you for the opportunity. Am I audible?

**Azim Syed:** Yes, you are.

**Moderator:** Yes, we can hear you.

**Sahil Sanghvi:** Thank you for the opportunity, sir. And good work on maintaining the numbers despite such challenging days in the industry. So, sir, my first question was, there were some volumes that were stopped from Dalmia Cement. Have we resumed that business now?

**Parmod Sagar:** Yes, we have resumed and this year we are getting orders from Dalmia as well.

**Sahil Sanghvi:** Okay, okay. Secondly, sir, just wanted to understand, there are a couple of these new capacities, which are coming on board, which are our current customers, which customers are we expecting to give us this incremental work, if you can name a few?

And also, if you can help us understand that over and above the base industry growth, say steam growth growing 6%, or cement growing whatever, I mean, how much can we do over and above that due to these new capacities? How much can we grow over and above that?

**Parmod Sagar:** You know, you take the name of all big four, whether it's the JSW Group, Tata Group, ArcelorMittal, JSPL and SAIL. Everybody is planning to expand. And there are some projects in the pipeline, almost at final stage, which can commission, two, three plants, as I said in the beginning, it will be commissioned in the end of November, beginning of December.

But some of the plants may commission in mid of 2025 or so. Same with cement, whether it's UltraTech, Adani, Dalmia, everybody is adding capacity. So, if it materializes, it is a substantial growth in the market.

But keeping my finger crossed, whether it will happen or not, because in last four months, nothing has happened. And over and above this monsoon season impacted, normally it is a seasonality during a monsoon, construction work goes down where consumption of steel and cement goes down. So, this has its seasonality impact also. But overall, I would say steel, cement will grow at a pace, which you are saying 6%, 7% for sure.

If, you know, there's no change in global geopolitical situation, headwind, I don't want to sound political, but you know, with Mr. Trump on the top in US, if he puts some sanctions on China, more sanctions on Chinese refractory, then China will have overcapacity, more overcapacity. And then they will start dumping whatever they are dumping out more in India, which will have impact. So we have to see how the things are moving.

**Sahil Sanghvi:** Right, sir. And sir, on the export front also, any improvement you are seeing, any kind of recovery, or it still appears very weak for next two, three quarters?

**Parmod Sagar:** No, it is really weak. Rather in last quarter also, it was a dip, small dip in our percentage, I would say. And I don't see next two, three quarters it will have any material impact or substantial increase in our exports.

**Sahil Sanghvi:** Got it. Thank you, sir. And very all the best.

**Parmod Sagar:** Thank you. Thank you very much.

**Moderator:** Thank you. We have the next question on the line of Mayank Bhandari from Asian Market Securities. Please go ahead.

**Mayank Bhandari:** Thanks for the opportunity. Sir, in terms of the growth in the domestic market, I think it's been almost two years that we have not been able to outgrow the steel production in the country. And we have always maintained that we will grow plus 1% or 2% than the steel production. So, sir, I mean, what exactly is wrong in terms of the growth in the domestic market for us?

**Parmod Sagar:** You see, I already replied actually to this question. But we perceive steel growth. Actually, it is not happening at that pace. JSW has given 2.7% steel growth in India in their communication. We believe it is less than 3%, right. So, we have grown with it. And at the same time, as I commented earlier, we lost some business, commodity business because of too low pricing from Chinese traders. If we venture into that market, our margin will go down and we don't want to erode our margin drastically. So, that was a considered decision. At the same time, we took some corrective action how we can enter into that market without reducing our prices or eroding our margins.

So, I still maintain that statement. We want to grow 1% or 2% more than the industry. And we, again, next year, our budget, whatever discussion we are doing, we are going on that particular line. And we have some strategic initiatives, which will support us to get those numbers and volumes.

**Mayank Bhandari:** Okay. And on the flow control side, sir, we initially had some plans of exporting from India, a couple of products. So, how is that panning out?

**Parmod Sagar:** We were actually having very ambitious plan to increase our export in flow control. Unfortunately, because of this geopolitical situation, we still have a lot of resistance in Russia and Ukraine war. A lot is happening in the Middle East, Iran, Iraq, Gaza Patti, Israel and Palestine, Jordan. This is a totally disturbed area, right? So, export has actually static, I would say, and I can't see any uptick in the next two, three quarters. Unfortunately, this is not in our control. But we were having very ambitious plan. Whenever the situation will improve, definitely we will venture into it in a very aggressive way.

**Mayank Bhandari:** Okay, okay. And lastly, we know that parent company is a leader in magnesia base, and they have also acquired a few companies overseas in the alumina base also. So, despite being a leader in the raw material, I mean, they are perfectly backward integrated company on a global level. How do you foresee this margin dilemma, because the margin keeps fluctuating in quarters also and overall. So, would you be able to give some sense in terms of long-term margin expectation?

**Parmod Sagar:** First, we are very strong when it comes to backward integration in basic magnesia base mines we have in Brazil, in North America and Europe. But we don't have very big mines in high alumina, in spite of having too many acquisitions, we have not gone far as mines, high alumina mines, right?

So, historically, the raw material prices till three months back was lowest level. So, our own, even realization in our mind, the raw material was at the lowest level. So, now the prices of raw material are going up. So, we are buying anything and everything of alumina base from the market. So, we are getting impacted adversely, because of this pricing and we have to pass it on to our customers. But I cannot give you long-term perspective. I believe it is a temporary impact on the profitability, but it is good for the industry if raw material prices go up.

**Mayank Bhandari:** Okay. So, basically some of the business, some of the raw material that you are buying from the market, parent company does not have hold on that. That is high cost for you.

**Parmod Sagar:** Yeah. Absolutely.

**Mayank Bhandari:** Okay, okay. That's it from my side.

**Parmod Sagar:** Thank you, Bhandariji.

**Moderator:** Thank you. We have the next question from the line of Chetan Doshi, an Individual Investor. Please go ahead.

**Chetan Doshi:** Good afternoon, gentlemen. In the current scenario, the performance and the cash flow what you have generated is really commendable. I have two questions. One, you have built up inventory in first quarter and the percentage is quite high. It has gone up from 25% to 31%. So, first question is how much time you will require to liquidate this run up, because the raw material also you have bought in huge quantity. So, the price advantage you will get in second quarter and how much percentage you expect the margins to go up in the second quarter because of building up of this inventory?

**Parmod Sagar:** First of all, this inventory, we were assuming at that point of time that this commissioning, which I keep on talking three, four plants will be commissioned, which unfortunately did not materialize. So, this build up and we believe that our third and fourth quarter will be better than first and second quarter. That also pushed us to increase the inventory.

But, at the same time, inventory is more of basic raw materials, which has not increased the prices. So, high alumina prices have gone up as I said from last three months and we are buying this at a higher price. So, it will not give us a positive impact or incremental increase in our EBITDA percentage. As I said, on the contrary, we are under pressure and we have to pass on this to our customers.

Do, you want to add anything?

**Azim Syed:** No, no, no. I think you perfectly summarized it.

**Chetan Doshi:** And another, in the investor's presentation, you have highlighted that less lining evaluations scan. So, you are the only player or you have competition in this?

**Parmod Sagar:** As of now, we are the only player leading this digitalization in cement industry.

**Chetan Doshi:** Congratulations. And secondly, you have mentioned that a large cement player became a repeat customer in 2024. So, can you name the customer who is this?

**Azim Syed:** We normally don't name the customers, because it's not the right thing. We don't call out individual customers. These kind of…

**Chetan Doshi:** But when you are the only player…

**Parmod Sagar:** What I can say is all three, four big players are there.

**Chetan Doshi:** And regarding this OEM project, how much margin we expect from this division?

**Parmod Sagar:** Which division?

**Azim Syed:** OEM.

**Parmod Sagar:** OEM?

**Chetan Doshi:** Yeah.

**Parmod Sagar:** Usually OEM, it's not margin, when the new projects come, OEM plays a very vital role. OEM recommends the end user. You should use RHI Magnesita or X or Y or Z company's material. So, if you have a good relationship with them, if you have a proven track record of your consistent quality, they will recommend you.

And based on that, we have a very constructive discussion with a few of OEMs like SMS, Denley, Primetal. So they believe in us, they believe that we can give a consistent product. The commissioning of new project will be smooth and hinder any hiccups and all. So that we are trying to build up that relationship based on our product performance, which will help us to get business at commissioning stage.

**Chetan Doshi:** Okay. And one last question. Based on the discussions during the con call, if all divisions start contributing and there is growth in cement and in steel in the divisions where we are operating, then we can even expect 30% to 40% growth in top line and bottom line. Is that true?

**Parmod Sagar:** No, I don't see. We are on the upper side, I would say, the steel growth, which people are talking about is in a staggered manner. It will not happen in 2025, all the production will not come up. So every year, it is a 6%, 7% growth, which is they are projecting. Same way cement is 9%, 10% growth if everything goes well. So I keep on saying, and I still maintain my statement that we will be growing more than 8% in volume. Revenue, I cannot comment. It depends totally on raw material pricing, freight etc, even energy cost. Thank you, Sandeep.

**Chetan Doshi:** Okay. That is from my side. Thank you very much.

**Parmod Sagar:** Thank you, sir.

**Moderator:** Thank you. We have the next question on the line of Chintan Modi from Hightown Securities. Please go ahead.

**Chintan Modi:** Hi, sir. Thank you for the opportunity. Sir, I was referring to your Slide number 12 on the presentation where you mentioned about the LES service that you provide to customers. I think that you must be providing such kind of digital and technological services to your customers. So wanted to kind of understand like the cost of these services are basically embedded into the cost of material that you supply or these are more cost borne by us to retain or kind of win new customers?

**Parmod Sagar:** It is mostly embedded in our contract like we did this -- we are talking about PSU, but in JSW also, first robotic solution, we signed agreement with them. It is INR100 crores for next 5 years. So it is embedded. Actually, we have a breakup with them, JSW, this is our product cost, this is our equipment cost, robotic cost, operational cost. So then there's a total cost. So it is mostly embedded in our offerings. And customers also know, in some cases, we also provide free of cost -- but again, we add this value on a 5-year contract, 7-year contract, how much is the depreciated value every year. Based on that, we do this. Otherwise, our margin will go really to the south.

**Chintan Modi:** Right, right. So I understand this would be more from creating efficiency for yourself and the customer. So that efficiency, the gain that you get from the efficiency or the savings that you achieve, now that are basically partly retained by us or kind of fully passed on to the customer. How you kind of do this? Because customer would be easy for him to kind of see through the costs incurred and everything because prior to this kind of arrangement, how they were doing it now, how they are doing it?

**Parmod Sagar:** Mostly, it is customer's benefit. What we are getting is performance. Like we are mentioning here, 78 are casting, and we are getting per heat cost or per ton of steel cost. If our product through this mechanism, through this automation, digitalization, the life goes up, we also get benefited because of a higher life because of safety point of also, it is very important. People are safe, and we are getting better life and eventually, we are getting better realization. But it is upfront, if you will see, it is a customer benefit also.

**Chintan Modi:** Got it. Thank you, sir. That's it from my end. Thank you very much.

**Parmod Sagar:** Thank you, sir.

**Moderator:** We have the next question from the line of Mr. Sahil Sanghvi from Monarch Network Capital. Please go ahead.

**Sahil Sanghvi:** Yes. Thank you for the opportunity again. My question is related to Dalmia OCL. Sir, I wanted to understand that what all are those key pointers or key targets that we want to achieve to reach an optimum level of margins, good profitability? And how do we see the ramp-up on the revenue at Dalmia OCL? I mean I understand, sir, the market is not supporting right now. But I mean, is there any other stone that we have left unturned to make the entity more efficient? And what would those be? If you can tell us what will be your next 2-year plan to optimally make this unit work out?

**Parmod Sagar:** Sahilji, thanks for your question. Firstly, as Azim said in the beginning, now we stop segmentizing whether Dalmia plant or Hi-tech plant or RH Magnesita India plant, we talk consolidation base. But I can give you a high-level number. We -- when we acquired, it was 6.9% EBITDA with half of it was one-timer, right? So actually, it was less than 4%. We reached to 11.4% without putting much capex, right? And our guidance to the market, our ambition was to take it to 12%, 13% in long term, which we still believe we can do that, right?

Capacity-wise, we have increased quite a lot, improved, a long way to go still. It all depends upon market conditions, but we want to really grow in those businesses, which Dalmia brought along with RHI Magnesita. Now we have a total portfolio. So we will definitely be growing that business. But now some product we shift from there to their X to Y, Y to Z plant, we have 8 plants. So we are more working on optimizing our product portfolio, production footprint where it makes more sense to produce irrespective whether it's Dalmia, Hi-Tech, ORL, any plant.

**Sahil Sanghvi:** Right. Sir, but there was a time post the acquisition where you had also guided that your target would be and your time would be to reach a 15% margin level at Dalmia also. Would that be a...

**Parmod Sagar:** That was not 15% margin. That was 15% growth. We were looking at 15% growth with a lot of export and everything, which die down very fast. So instead of 15%, we come down to 8%, 9%. But it was never a 15% margin. It is not feasible. I reiterate, it is not feasible with high alumina mix feed bricks and all those things. It is with flow control, you can always imagine 16%, 17%, 18%, but 15% with brick and mixes business, it is almost impossible.

**Sahil Sanghvi:** So 13% is sounding realistic for this.

**Parmod Sagar:** Sahilji, you are putting word in my mouth.

**Azim Syed:** Yeah, let me repeat again. We look at our business on a consol level and challenges on the margin percentage there. Let me also repeat that this consol level, it's not more of a polymic topic that we are trying to make here. The reason is that we want to do the right thing for our customers and our shareholders.

And we can do that if you look at our business on a consol level because we want to optimize our products and optimize our margins, which wherein we can fend off any Chinese competition is coming at a, let's say, a remarkable price. we are able to optimize our recipes and blends in a manner that we can -- we are competitive.

And this also creates, as I mentioned earlier, competition amongst our plants to be even more competitive. If we go on a fixed network, I think we will create large volume plants, which will create even more cost absorption. So we like the flexibility. And this is one of the reasons why we acquired this broad product portfolio. So please don't look at it individually. I hope it's clear now. Happy to clarify in detail one way.

**Sahil Sanghvi:** No, this is helpful. Thank you. Thank you very much, Azim, sir. And thank you very much for Parmod ji. Yeah, thank you.

**Azim Syed:** You're welcome.

**Parmod Sagar:** Thank you. Thank you, Sahil ji.

**Moderator:** Thank you. We have the next question on the line of Rajesh Majumdar from B&K Securities. Please go ahead.

**Rajesh Majumdar:** Yeah, thanks for the opportunity again, sir. Sir, I was just looking at the cash flows and the capex, and you seem to have been generating a lot of positive cash flows where the capex is only INR62 crores. I think we were looking at a capex run rate of about INR200 crores per annum. So where were we in that space? And if we look at this kind of a conservative business model that you're adopting now, you'll be generating a lot of cash flows. So what do we do with the cash? We are going to expand, right? So we need to increase our capex capacities or modernize. How do we look at this?

**Parmod Sagar:** By nature, we are a bit conservative when it comes to spending. So we will not keep on spending the capex. If I gave the guidance, okay, I'm going to spend INR300 crores in the next 3 years' time, it is not mandatory. If it is real necessity wherever, we will do that. So we are doing something like INR70 crores, INR80 crores every year from last 2, 3 years.

And this is the pace we assume next 2, 3 years also, okay? So this is need-based where we can get a right payback efficiency, reduction in rejections, improving productivity. So there are many parameters which will force us to decide any expense incurred in our plants. And cash flow, people will keep on sporting, we will have a happy cash flow in our bank. We will look for opportunity to spend that money, okay?

**Rajesh Majumdar:** Right. So added question that we will not be sacrificing any growth opportunities in terms of being so conservative on our cash. That's...

**Azim Syed:** Not at all. Definitely not. We were the -- I mean, just to kind of reiterate, look at historically, we were the first to do acquisitions. People are not putting wrong greenfields. Second, we are not shying away from investing, for example, at the beginning of the year, we invested a lot in the operational efficiencies.

Now we are focusing on modernizing, making our plants safe. And as you can see, if our capacity utilization is overutilized, then definitely we should look for capex. Hence, we are looking -- I mean, we like to spend money where we think which can support our better returns ratio.

We see this in the iron making business where there's quite a bit of blast furnaces that are going to come online, wherein we think that we can invest in iron making. That's why we are very much excited about the investments, again, step-by-step investments that we are doing in our iron making excellence center.

So that's the way we think about it, Rajesh. So we are not going to step away. We are quite -- we have a good risk appetite in terms of investments and so on and so forth. So you will not find us wanting there. And as you can see, our cash flow is good enough that we can do these kind of investments as well.

**Rajesh Majumdar:** Right. So thank you.

**Parmod Sagar:** Thank you.

**Moderator:** Thank you. That was the last question. I would now like to hand it over to Mr. Parmod Sagar for the closing comments.

**Parmod Sagar:** Thank you very much. Thanks a lot, dear friends. We value your comments. We value your feedback, and we always strive to give right value to our shareholders. We always take each and every comment in a positive way, healthy way, and we try to improve. I think in last 2, 3 quarters, we improved a bit and further, we will keep on improving very transparently with you as you are our partner and you are the people who are guiding us, and we value your relationship. Thank you very much for your time, for your comments, for your support. Looking forward to have much more intense interaction in coming months. Thank you.

**Azim Syed:** Thank you. Thank you and have a nice weekend.

**Moderator:** Thank you. On behalf of RHI Magnesita India Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.