



RHI MAGNESITA

RHI MAGNESITA INDIA LTD.

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February 20, 2023

National Stock Exchange of India Limited

Exchange Plaza, C-1, Block-G
Bandra Kurla, Complex, Bandra (East)
Mumbai-400098, Maharashtra, India

BSE Limited

Phiroze Jejeebhoy Towers,
Dalal Street, Mumbai-400 001
Maharashtra, India

NSE Symbol: RHIM

Scrip Code: 534076

Sub: Intimation of submission of transcript of investor's conference call - third quarter and nine months ended December 31, 2022 conducted through digital means

Dear Sir/ Madam,

With reference to our earlier intimations dated February 10, 2023 and February 15, 2023, pursuant to regulation 30 read with Schedule III of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time, please find enclosed herewith the transcript of investor's conference call conducted through digital means on Monday, February 13, 2023, at 5.30 PM (IST) for the third quarter and nine months ended December 31, 2022.

The copy of aforementioned transcript of conference call is also being made available on the website of the Company at www.rhimagnesitaindia.com.

Kindly take note of the same and oblige.

Thanking you.

Yours faithfully,

For RHI Magnesita India Limited

Sanjay Kumar
Company Secretary
(ACS 17021)



Encl. As above



“RHI Magnesita India Limited Q3 FY2023
Earnings Conference Call”
Monday, February 13, 2023



**MANAGEMENT: MR. PARMOD SAGAR - MD AND CEO
MS. VIJAYA GUPTA - CFO**

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY 2023 Earnings Conference Call of RHI Magnesita India Limited hosted by HSBC.

As a reminder, all participants' 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

From the Management team, we have with us today, Mr. Parmod Sagar - MD and CEO; and Ms. Vijaya Gupta - CFO. We will start the call with a brief opening remarks and then open the call for Q&A.

I will now hand the call over to Mr. Parmod Sagar for opening remarks. Thank you, and over to you, sir.

Parmod Sagar: Thank you very much. Good evening, everyone. I am Parmod Sagar - Managing Director and CEO of RHI Magnesita India Limited. And with me is Ms. Vijaya Gupta - Chief Financial Officer.

I will start with some update on our recent acquisition followed by RHI Magnesita's Q3 Financial Results for 2023. We acquired the Indian refractory business of Dalmia Bharat Refractories Limited via a share swap agreement executive on 5th of January '23.

DOCL being one of India's leading refractory player and a long-term trusted partner to customers in the region, it marked a serious step in RHI Magnesita's strategic growth plan and will enable to integrate company to increasingly serve our customers with a local for local approach, while offering a broader range of products.

DOCL gives us a strong inroad into the industrial segment of the market where traditionally we have been less prominent. Also gives us a production footprint in the western and southern markets where we had no manufacturing capacity earlier.

Further, we have executed the business transfer agreement with Hi-Tech Chemicals on 19th October 2022 by way of slump sale, and the process of acquisition has been completed on 31st January 2023. It manufactures high quality flow control products largely for the steel industry. it also has some products for iron making as well. Hi-Tech will strengthen and enlarge company's product offering and position in domestic and international flow control refractory business.

Both these acquisitions put together takes our local production capacity beyond 5 lakh tons per annum and our market share to about 30%. We have about 1,50,000 of unused capacity, which should be sufficient to meet the future demand of the consumer industry for the next couple of

years. We have planned for the modernization of the newly acquired manufacturing assets, where we will be focusing on this for next one to two years' time.

The company registered 32% growth in income compared to the nine months of the previous financial year. The nine months financial year 2022-23 income stood at Rs. 1,860 crores. I repeat, 1,860 crore as compared to Rs. 1,413 crores during the nine months financial year 2021-2022.

The PBT stood at Rs. 287 crores during this period, as against 227 crores during the nine months financial year '21-'22, impacting PBT margin by (-0.6%) due to higher cost of trading goods and foreign exchange fluctuations. Looking forward, all our key strategic initiative to support future growth and further profitability improvements are now fully on track.

On the M&A front or the integration of Hi-Tech and DOCL, we have initiated a project exclusively named Milan, focus on integrating the companies into the RHI Magnesita to leverage the full strength of both companies along with RHI Magnesita best talent. The project aim to work together for full integration of the business and drive the maximum common value and synergies.

Industry looking forward on production, the demand from (technical difficulty 00:05:14) continue to remain positive. In fiscal 2023, the cement production is expected to grow by double digit. This will increase the consumption share across the cement industry significantly.

Crude steel production is expected to grow by 4%, and aluminum production by 1.5% to 2% in fiscal 2023. Thus, the increased production of end use industry of refractories will positively impact the demand in fiscal 2023. Refractory industry demand is expected to reach 1.6 million ton in fiscal 2023, growing by 6% year-on-year basis.

Thank you very much.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Viraj Kacharia from Securities Investment Managers. Please go ahead.

Viraj Kacharia:

Just have a couple of questions. First is, you know, so some time back before these acquisitions, we had outlined a CAPEX of around 350 crores, 400 crores, and post these acquisitions, you know, we have a sizable underutilization in terms of the capacity. So, on an overall capacity of plus 5 lakh tons, you know, we are operating around 65%, 70%. And you also mentioned that we have sufficient capacity available to meet future demand.

So, the question is that, you know, in one of the press articles a few days back, we talked about an overall CAPEX of \$400 million and annual spend of somewhere between \$35 million to \$40 million. So, can you just provide a perspective in terms of where are we? What is this CAPEX

for? And how are you seeing the overall demand play for us, you know, over the next, say, three to five years?

Parmod Sagar:

Thank you very much. Very valid question, and actually, my apologies. The journalist who was interviewing is Stefan actually misunderstood. Stefan was saying we have spent 400 million euro in our acquisition and further CAPEX. Okay? So, we already spent almost 265 million, 270 million, 370 million on these acquisitions and all, and the next 25 million, 30 million was the only CAPEX, which we were thinking we will spend in next three to five years' time. Is it clear now?

Viraj Kacharia:

Yes, sir. So, basically, then, the second part of the question, which is largely, there was an overall demand environment either in terms of export and domestic, you know, where do you see opportunities for growth? So, now we are almost 30% of the market, but there are many customers who we still have a very low wallet share, say, one being Tata Steel.

And similarly, in terms of exports. So, how do we see the growth panning out for us over the next, you know, three to five years, if you can just provide a perspective on that? And you know, we also have a parent who also has a trading business of somewhere around 500 crore to 600 crore. So, any update on that, if you can share?

Parmod Sagar:

Sure. So, I will speak to this question. My answer to two, three parts. One is domestic demand. That industrial, industry, in general, whether it's a steel or cement or glass, demand is very strong. And in spite of having 30% now the market share, we see many opportunity to grow the business further. Particularly, in a few segments where we are not as strong as we can be, so there are opportunity to increase the business over there.

If we talk about export, short term, I will say, there is a headwind because of this ongoing war between Russia and Ukraine resulting into short of business in those countries which we were traditionally doing. And at the same time, it has created this energy crisis in the European region. So, because of this, the demand in Europe is subdued, I would say. It is like a recession. So, I don't know really when it will come out of that. So, for the short term, I would not see any upsurge in export, but in the long term, we expect that our export will rise to something like 24%, 25% from 17%, 18%, which is now. I hope I cover everything.

Viraj Kacharia:

Yes, just one last question, and I will come back in the queue.

Parmod Sagar:

Trading, yes, we are doing some trading business, as you said 500 crores, 550 crores. So, this will continue, though going forward maybe it will come down a little bit, because if we will start producing some of the products in India with capacity available now, so this may come down in coming days.

- Viraj Kacharia:** So, my question was more on the trading which the parent entity does, you know, that is outside the RHI Magnesita India?
- Parmod Sagar:** Trade means what?
- Viraj Kacharia:** I will just follow up on this little later. So, one last question, and I will come back in queue. On the fundraise, you know, we talked about there was 1,500 crores is what we are looking to raise the money. And since we don't have any CAPEX requirements, the current cash generation itself from the combined entity would be significant to repay the debt even after the CAPEX. So, what is this 1,500 crores fundraiser for, you know, if you can give some color, what is the thought process behind?
- Parmod Sagar:** You know, we want to raise this money to repay the loan to some extent, and maybe about 20%, 25% is for general corporate purposes.
- Vijaya Gupta:** For general corporate purposes. Yes. So, essentially, we have borrowed, and for other purposes so that we have sufficient gearing to take care of the opportunities if it comes in future.
- Viraj Kacharia:** So, you said 20%, 25% is for other corporate purposes. That's almost like 300 crore, 350 crore. So, anything in particular there or?
- Vijaya Gupta:** Right now, we will not be in a position to clarify much.
- Moderator:** Thank you. Our next question is from the line of Rajesh Majumdar from B&K Securities. Please go ahead.
- Rajesh Majumdar:** I just had two questions. One was that the gross margin we see this quarter is the lowest since we saw in 2Q FY '21. It is about 34%. We have been normally doing between 37%, 38%. Last year at the same time we did 41%, 42%, but that was in aberration, but we have come down to 34%. so how should we see the gross margin sustainable going forward? That was the first question, sir.
- Parmod Sagar:** So, the gross margin has come down. There are two reasons. One is our material cost which has gone up because, you know, during September, I think, August onwards, the raw material was going up, and we had some good inventory in hand which is of high cost. And then all of a sudden, the raw material prices start diluting or softening October onwards. So, the high value inventory was in place. And at the same time, this devaluation of Indian currency hit us badly around 11% or so. This is the reason.
- Rajesh Majumdar:** So, will that continue into the fourth quarter as well inventory or is it already out of the system?
- Parmod Sagar:** Yes, this quarter, running quarter, it will have some impact, a little less than last quarter, but April onward, I think we will have a full present price inventory in place.

- Rajesh Majumdar:** And so my second question was you mentioned that you are raising the funds for repaying. That means you have already taken on debt first because as of the 30th September, we hardly had any debt. So, what is the debt right now we have?
- Vijaya Gupta:** Yes, that's right. To fund these acquisitions, we have taken loans, and that is what, you know, it is around, we have an approval of 1,300 crores.
- Rajesh Majumdar:** So, the fundraising, so this loan is more of a bridge loan for the acquisition kind of thing, after which you will probably repay it with this fundraise. Is that correct?
- Parmod Sagar:** Yes.
- Rajesh Majumdar:** And so my last question was on DOCL. What do you see sustainable top line and margins in this company? Because last year, it was just a 10% margin and 900 odd crores of turnover. So, in a steady state, say, which is 80%, 85% utilization, and by which year can we see that?
- Parmod Sagar:** It is a very early stage to predict any numbers as of now. We have just acquired on 5th of Jan. And we are just evaluating plant by plant, product by products. So, as of now, it's really difficult to predict. Maybe in future I will be able to give you some good news.
- Moderator:** Thank you. We will take our next question from Dhananjai Bagrodia from ASK Investment. Please go ahead.
- Dhananjai Bagrodia:** So, I wanted to understand this market share of 30%. Could you basically sub-classify across which segments and how that works? Which segments are we 30% in? And Yes, that's the first question.
- Parmod Sagar:** So, basically, if we talk about 100% business of us, 30% is divided. Out of this 30%, 72% is steel, and 28% is industrial post-merger. And when I say industrial, it is cement, glass, non-ferrous, lime, EEC, everything.
- Dhananjai Bagrodia:** And so I just wanted to understand how much of our business would be sticky? Let's say, if there is a slowdown tomorrow in steel across, then in our business across our three segments, how would that hurt? Would revenues also drop in line with utilization drop? Or how would that play?
- Vijaya Gupta:** I will just take this question. You know, Dhananjai, what happens is steel companies keep producing even in a downturn, and actually, we do not see any such trend because our demand is quite robust, and we see steel growing at the rate of 10% to 12% in the coming years.
- Dhananjai Bagrodia:** So, it's fair to assume that even with the downturn as such, if there were to be one, our demand will still keep growing in line...

- Vijaya Gupta:** Yes. Our demand will be growing.
- Parmod Sagar:** I would say it differently. I would say, as of now, that has from government is on infrastructure. So, that's what Vijaya is trying to say. As of now we can see that demand will continue like this.
- Dhananjai Bagrodia:** And lastly, between the three companies now, since we are now a merger between the three between RHI and now Hi-Tech and now Dalmia Bharat, what would be the return ratios and profile of each company in terms of how they are segmented, position segmentally?
- Vijaya Gupta:** See, what we see is together we will be able to have some margin around 14% to 15%. Individually as Sarar sir has said, it is too early to make a comments, because we are still evaluating. Yes, we will unlock production capacities what we have. That unlocks synergies and Hi-Tech, which we have acquired is high on value-added segment. So, that should benefit. But long-term sustainability is 14% to 15% EBITDA margins is what we see.
- Moderator:** Thank you. We will take the next question from the line of Jonas Bhutta from Birla Mutual Fund. Please go ahead.
- Jonas Bhutta:** So, firstly, just wanted to understand, do these, this quarter numbers include Hi-Tech?
- Vijaya Gupta:** No. We acquired it on 31st Jan. So, we will be integrating only for 7 March numbers.
- Jonas Bhutta:** So, in the fourth quarter, Hi-Tech would come in, and would Dalmia also come in or, or that's even later?
- Parmod Sagar:** Yes. Dalmia will also come in. It will have a standalone, but we will consolidate as well.
- Vijaya Gupta:** Because it's 100% subsidiary.
- Jonas Bhutta:** And ma'am, while you did mention that you have the limit for 1,300 odd crores, what is the actual debt drawn down on the balance sheet as on date?
- Vijaya Gupta:** 1,070 crores.
- Jonas Bhutta:** 1,074?
- Vijaya Gupta:** As of now. Yes.
- Jonas Bhutta:** 1,070?
- Vijaya Gupta:** 1,070, Yes. That's right.

Jonas Bhutta: And Sagar sir, you know, I missed out on your explanation as to what led to this gross margin compression.

Parmod Sagar: I said one is raw material cost, because the inventory was of a high value at a higher price bought out. And second is the devaluation of Indian currency. There is a 11% roughly impact of FOREX loss.

Jonas Bhutta: So, today, with these two acquisitions, you know, where does our traded goods purchases go down to, as in today, what is it in the nine months, what is the percentage of our sales? And on a sustainable basis going forward with the acquisitions, you know, where does it go down to in two years?

Parmod Sagar: As of now, roughly, we have 20%, 22% of traded goods. In particular quarter, last quarter, I think it was 38% or so, but the average if we talk about, say, 2,400 crore business and the 500-600 it is 22% or so. But I cannot quantify how much it will come down. But definitely, it will come down if we start producing locally. But it will take time. We have to optimize product mix and what product we will produce in what plant, what is the logistic cost, what is dynamics of that plant. So, everything has to be looked into.

As in the beginning, I said, we have created a project Milan. We have a works team of all, you know, operation, Finance, HR, everything. So, the operational work team is looking into it. And what makes sense to produce in India, what makes sense to produce in India, but in which plants? So, they will be working out everything. And I think, next three to four months' time, we will have a clear picture.

Moderator: Thank you. We will take our next question from the line of Sanjay Kumar from ithought PMS. Please go ahead.

Sanjay Kumar: First is on DOCL. In DBRL's standalone balance sheet, there is only 40 crores of net debt. So, why are we taking on 440 crores? Is it because Dalmia is transferring the resource from DBRL to DOCL on a slump sale basis and then selling to RHI? So, for the transfer, DBRL will receive 393 crores. So, we will use it as a liability in RHI. What is accounting methodology? And what would be the structure of these cash places? Is it based on milestones or pure debt?

Vijaya Gupta: Yes. Sanjay, just to answer your question, the total purchase consideration was 2,100 crore, out of which 1,707 crore was by way of share swap, and the balance was the loan, which 395 crores. So, this is the transaction value. So, does it clear? So, this will be debt in the books of DOCL.

Sanjay Kumar: Any comment on the valuation? So, if we had set up the same capacity, it would have been much lower or the capital range that you are doing now, it could have been done earlier instead of a share swap, because the six-month average pricing kind of influenced the purchase consideration?

- Parmod Sagar:** Yes. You mean to say that valuation is more or what?
- Sanjay Kumar:** More. Given the margins and...
- Parmod Sagar:** Yes. So, it is more because, you know, historically, evaluation of RHI Magnesita India is also good, and we have not bought only the present capacity, but we have bought almost double the capacity, which we can use in coming days. So, the Dalmia OCL plants put together is having a capacity of 300 lakh ton. 300 lakh ton. And utilization capacity as of now is almost 55%, 60%. So, we have bought almost 1,50,000 ton additional capacity also, which will help us to cater to ever growing demand from steel or cement or cement also.
- Sanjay Kumar:** But we are paying for valuation for a substandard company anyway. Never mind. So, my final question on the loan limit 1,300 crores. So, what will be the interest cost for this debt in FY '24? And given the capital raise, so what would be the repayment schedule of this 1,300 crores?
- Vijaya Gupta:** So, this it will be at, you know, we have taken a loan, which we would like to, you know, repay with this equity raised. And the rates are what you get in the market. It is at comparable rate.
- Sanjay Kumar:** So, can we consider that the entire debt will be repaid in FY '24?
- Vijaya Gupta:** We will see as we go. It's too early to comment.
- Moderator:** Thank you. Our next question is from the line of Kamlesh Kotak from Asian Markets Securities. Please go ahead.
- Kamlesh Kotak:** Sir, just wanted to understand a bit more about the synergies coming in with these two acquisitions. Could you help us understand more from the product overlay for the client overlap that you may have these two entities serving which kind of clientele vis-a-vis RHI's servicing clientele, and the product profile vis-a-vis their two companies and our product profile? Is there any synergy or any complementarity? Or how the entire thing synergizes for us going forward?
- Parmod Sagar:** So, RHI Magnesita is having this addressing plants of mainly Bhiwadi plant is flow control, Cuttack plant is Magnesia carbon brick, Vizag plant is alumina bricks and mixes. So, same way, Dalmia is also having some alumina plants, some basic bricks plant, burnt and unburnt, and Hi-Tech is also having flow control plants. So, I would say, this is complementing each other.
- And at the same time, there will be some products which RHI Magnesita India was not producing, and after this acquisition, we will be able to produce or already produced in these new acquisition facilities. So, definitely, there will be some synergies, but it is too early to quantify those.
- Kamlesh Kotak:** And in terms of clientele service by these three companies, whether India or globally, is there any synergy or any benefits coming out of that as well?

- Parmod Sagar:** Yes, looking forward, definitely, it will happen.
- Kamlesh Kotak:** And I don't know whether you answered this question, sir. What will be the revenue and profitability of these two companies as of now, though they are probably not consolidated in our numbers? Any ballpark range of the run rate at which they are operating in terms of revenue and margin profile?
- Parmod Sagar:** Very difficult to tell. But I think last year's number I can say.
- Kamlesh Kotak:** No, I want the latest numbers. Last year's I would have got.
- Parmod Sagar:** Let's wait for the results. I don't have really, Kamlesh ji, very frankly, I don't have numbers.
- Kamlesh Kotak:** And finally, geography-wise also, is this going to be materially different in terms of these two companies more into Indian markets vis-à-vis RHI looking at the exports markets also in terms of the future growth?
- Parmod Sagar:** No, I think all three companies are fit for export as well. Domestic as well as export. Dalmia, Hi-Tech, RHI Magnesita India.
- Kamlesh Kotak:** And lastly, sir, last meeting you discussed upon lot many products, which are meant for exports purpose to our RHI Global, as well as some products which we are developing in terms of import substitute, in terms of our own Brownfield CAPEX at all the three locations. So, any update on that in terms of the timeline and how those products project commissioning happening?
- Parmod Sagar:** Yes, I was talking about some high end products, very niche market products which we are bringing to Indian market from our parent company. So, out of the three projects, two projects are almost at completion, and I think we should look forward to commercially launch it in next two, three months' time. We already did some trial in some plants with very good results.
- Kamlesh Kotak:** So, should we assume them to start contributing from this current quarter? Or it will be next year? How you see that contribution?
- Parmod Sagar:** I think in the next financial year.
- Kamlesh Kotak:** And finally, sir, one point. How the global demand is in terms of what is, you said already there is some kind of an overhead that is, but do you see that thing is receding, and now over the next, what is the medium-term outlook for the growth in the exports markets as you see?
- Parmod Sagar:** I see it really not that picking up. I don't see at least till June any substantial demand pickup in global level.

- Moderator:** Thank you. We will take our next question from the line of Sahil Sanghvi from Monarch Network Capital. Please go ahead.
- Sahil Sanghvi:** Good evening and amazing performance on the revenue side. Sir, can you tell us the volume growth, either on Y-o-Y or Q-on-Q basis?
- Parmod Sagar:** You know, if market is growing by say 5%, 6%, we will also be growing with market maybe a little more.
- Sahil Sanghvi:** Sir, I am asking about the 3Q performance. I mean, what was the volume growth in 3Q FY '23?
- Vijaya Gupta:** 7.5%, this volume growth over previous quarter, Sahil.
- Sahil Sanghvi:** Previous quarter, quarter-on-quarter you are saying, right?
- Vijaya Gupta:** Yes. Quarter-on-quarter. And compared to previous year, Y-o-Y, it is 29% volume and 32% revenue flow.
- Sahil Sanghvi:** Second is, I wanted to understand that what is the trend in the RM cost right now? I mean, from whatever we are hearing from the peer, there is a decline in the absolute RM cost. So, are we seeing the same?
- Vijaya Gupta:** Yes.
- Parmod Sagar:** Yes, it is going down.
- Sahil Sanghvi:** And what about the realizations? Have you started passing on the decrease in RM cost?
- Parmod Sagar:** Not really. We still have a high value inventory in our stocks, but we also start getting a present price inventory. So, it is a mix of both.
- Sahil Sanghvi:** So, sir, we will start giving these pass-ons in Q4, or do you think it will happen in Q1?
- Parmod Sagar:** Q1 next year.
- Sahil Sanghvi:** And sir, now that we want to repay all these loans as soon as possible, are we now also open to inorganic acquisitions?
- Parmod Sagar:** You know, nothing is on the table, and we don't see immediate future, and anything is happening. But it's a small, very fit into our scheme of things, complementary, definitely, we will look into it.

- Sahil Sanghvi:** And lastly on Hi-Tech Chemicals, what could be the sustainable margin range? Because we understand it is a very high value-added product over there. So, can we sustainably do more than 25% over there going ahead?
- Parmod Sagar:** You know, it is a really hypothetical thing. I will not comment on this 25 or so, but yes, the products which Hi-Tech is producing is a high value product, and it will have a better profitability than the other units. But I don't like to give the number as such. Because you know, when we merge it into RHI Magnesita, there is our way of, you know, taking the plant to next level. There will be safety aspect and all those things, and we will be very particular about compliance and everything, and everything costs money also. So, we don't want any non-compliance issue as well. I hope you understand.
- Sahil Sanghvi:** Yes, sir. And on the export side, sir, now that we are also hearing that in Europe now that winter is passed now, there is a bit of, you know, moderation in the energy cost also, and therefore, a bit of recovery is expected. What are you seeing over there? I mean, how far is the recovery? What do you think?
- Parmod Sagar:** Yes, energy cost has come down quite a bit. But still it is not that level, which it was before this crisis. And at the same time, some of raw material like graphite and so, and zirconia particularly, these are not receding. They have gone up to certain level, and they are hovering around that level only. So, there is a mix of that, I would say. And if war stops today, I think in next three months or four months down the line, things will start improving in a better way.
- Sahil Sanghvi:** Lastly, sir, do we have any exposure to Turkey or Syria?
- Parmod Sagar:** Turkey, we have our own mines, and now recently, we acquired one more company in Turkey. And we are bringing a lot of mixes from Turkey also for Indian market, which, you know, about, say, seven, eight months back was really bad because of this energy crisis and evaluation of Turkish lira, their currency. And now things are settling down again.
- Sahil Sanghvi:** My question was more of from the point of the earthquake. So, how does that impact our RM cost or maybe our sales to those countries, if we have any exposure on the revenue side?
- Parmod Sagar:** We don't have much export in Turkey, but yes, we have some export. And because of this high energy cost, their production was a bit low. But now I think things are improving in Turkey as well, and raw material prices are also coming down. So, I think it will have a positive impact.
- Moderator:** Thank you. Our next question is from the line of Vipul Shah from RW Equities. Please go ahead.
- Vipul Shah:** Firstly, sir, congratulations on a recent sales performance. So, couple of questions, sir, from my side is how do you see the sustainable gross margin on an annual basis? I understand there will be quarterly variations. But you know, if I go back to five, seven years also, you know, pre

merger, pre everything, we never had such low gross margin. So, on an annual basis, sir, how do you think the gross margin should look like?

Parmod Sagar: So, Vipulji, I think, if I in terms of EBITDA I will tell you the sustainable margin should be 14%, 15%.

Vipul Shah: Secondly, sir, you know, in terms of the Dalmia OCL acquisition, sir, we also got access to some, some mines which were held by the company. So, in terms of, you know, the mines which we have also acquired by virtue of this acquisition, how much of this sir, helps us in our raw material security?

Parmod Sagar: Not much. Actually, the mines are a quartz-based mines, which we are using for our silica bricks in our Rajgangpur plant, and the rest is a bauxite mine, which is a not very good bauxite. So, still we are using some 20%, 25% with the high and good bauxite from abroad. So, it is helping us but not in a big way.

Vipul Shah: Last question, sir, is that, you know, it's been great that the company has taken an initiative to host a call post the results so that investors can better understand the developments. So, will this be a regular feature, sir, going forward on a quarterly basis?

Parmod Sagar: If you wish, yes, it will be. It depends upon you guys.

Vipul Shah: No, sir. There is no question, sir.

Parmod Sagar: no one the call, we will continue.

Vipul Shah: There is no question. We have, in fact, reached out to the CFO also earlier, specifically asking for such initiatives.

Parmod Sagar: We will definitely do, Vipulji. Sure.

Vipul Shah: Yes. So, that would be great, sir, in a quarterly basis, because we are also like a patient long-term investors. So, it's great to know about what the company is doing on an ongoing basis. So, thank you very much.

Moderator: Thank you. Our next question is from the line of Jinal Sheth from Awriga Capital Advisors. Please go ahead.

Jinal Sheth: I like to touch upon question raised by another gentleman on the equity raised. So, our net worth, you know, should be approximately 2,800 crores post the issue of shares to Dalmia, and our debt is around 1,100 odd crores. Rough debt equity you are talking about is 0.4. So, wanted to understand the thought process of the management in terms of raising equity at current valuation given equity is high cost, and the point being that our cash flows in the coming years are going

to be strong, so we could, you know, one way could have been where the parents lends us at the lower cost, or even we raise money from domestic institutions and still pay that off. So, just wanted to understand your thought process on that.

Vijaya Gupta: See, our RHI's debt equity ratio with this borrowing is 1:1 and not 0.4. Yes, you are right. Moving ahead, it would be that. But you know, we as a company have never taken so much of borrowing. And as I had said that we want to have this flexibility with us. In future, if we require, we have the capacity to borrow and see how things pan out. So, that's the reason.

Jinal Sheth: I take your point there, but I hope you also understand there is a cost to equity as well, right?

Vijaya Gupta: No, that won't be significant. I don't think the earnings of shareholders will be jeopardized.

Moderator: Thank you. We will take our next question from Rajesh Majumdar from B&K Securities. Please go ahead.

Rajesh Majumdar: So, I had a question on goodwill. Do you know by now or have an idea as to what is the kind of goodwill that will be created from the acquisition, because the purchase price is way above the fair value of Dalmia? That was the first question.

Vijaya Gupta: No, it is still that we need to work it out within 50 days. So, that's still going on. That work is going on.

Rajesh Majumdar: And the other question was regarding the market share. You talked about further, some people are asking about further inorganic acquisitions, but my understanding is that when you always reach 32%, 33%, is not there an issue with the competition commission as to the market share as to how far we can go in terms of market share? Will there be a kind of peak in terms of market share hit after this acquisition for some time to come?

Parmod Sagar: You know, I never said we are going for any other acquisition. I said, we don't want. But if some small acquisition, which very well fit into our scheme of thing and can add value, we are open to discuss that. Okay? So, I don't think we are going for a big acquisition where a competition commission will come into the picture.

Vijaya Gupta: We would not like to get into all that.

Moderator: Thank you. The next question is from the line of Gunjan Kabra from Niveshaay. Please go ahead.

Gunjan Kabra: So, firstly, I wanted to understand that, so what we planned was 400 crores of CAPEX that we planned initially. So, is that a part of the acquisitions that we have done? I mean, if there is, I mean, the Dalmia and the Hi-Tech is included in that, right? So, there are no more CAPEX or no more capacities to be added now. Is that correct?

Parmod Sagar: Absolutely, you are right. And we are not going to add any capacity. Yes, there will be some CAPEX used to modernize to upgrade the plants.

Gunjan Kabra: So, sir, the total capacity stands at 5 lakh tons, is it correct?

Parmod Sagar: Yes. It's around 485 lakh ton.

Gunjan Kabra: So, sir, you guided that we have an unused capacity of 150,000, and Dalmia Bharat is also operating at around 60, 65, Dalmia Refractories is around operating at 60, 65. So, sir, how was it, and Hi-Tech, I don't know, if you can guide what capacity utilization is Hi-Tech operating at? So, how are we planning to ramp it up in the coming years? So, how do you see the market in next two to three years with perspective to RHI? I mean, if you can give a broad guideline, I mean, a broad thing that how you plan to ramp up the capacity?

Parmod Sagar: You know, like Dalmia, Hi-Tech plant is also running at about 60, 65% capacity. So, put together both we have additional capacity with us about 150,000 tons, which we have visualized that if steel industry and cement industry and all other associated industry will keep on growing like they are growing, so they need capacity. And will help us to immediately ramp up. We have a capacity. It is just a matter of ramping up. So, it all depends upon market, our end user market. If the market is there, we are ready to cater to that market. And apparently, as of now, it looks like market is strong in India.

Gunjan Kabra: And the RHI facilities operating at full capacity utilization, is that correct?

Parmod Sagar: Not really. As of now, I think we are at about 75% capacity level put together all three plants. Maybe Bhiwadi plant is 85, Cuttack plant is 90, and Vizag is 70, 65, something like that.

Gunjan Kabra: So, sir, with these acquisitions done, do we have any, can we expect any one-time expenses that we need to, you know, start operating these plants, or any expenses on that, on those fronts can come in from next quarter or something?

Parmod Sagar: Not really. You know, definitely, there will be expenses and we will do that. But it will not be quarter basis. You know, even if I order one mixer, it will cost me only Rs. 1 crore, the delivery time will be 8 months. I think which we will start doing, we will have a delivery time say lead time, and after that installation it will start yielding results.

So, nothing is going to change in say three, four months' time. Only thing is what we can do is how we can increase the productivity, how we can reduce the rejection level and all those things, how we can make this working place safer? All those things we will be focusing for next three, four months' time.

Gunjan Kabra: Sir, also, I wanted to understand that inventories, it's in our books from last, if you see it has been increasing tremendously. So, what could be the reason for that?

Parmod Sagar: Initially, it was a very thought of a decision by the management by us not even here, but globally also. We should have a healthy inventory in our stocks because during those days, you know, the total supply chain was haywire. The container was not available on the spot. Shipment time was very high. So, we have a lot of FLS contract, full line contracts, 100% business steel plant. So, we created this inventory to make sure that where we have a business, where our partners are relying on us 100%, we should not fail. It cost us a little bit, but at the same time, we were the people who keep on supplying irrespective of the offset situation. So, that was a considered decision, and now we are tapering it down.

Gunjan Kabra: So, what does the number stand today as of December 31st, if you can guide?

Vijaya Gupta: Yes. We have 87 days inventory.

Gunjan Kabra: 87?

Vijaya Gupta: No, 87 is our, sorry, cash conversion cycle. And the inventory what we have is 109.

Parmod Sagar: 109. It was 124 days, but now it is 109, and gradually it will come down to original level of about 90 days.

Gunjan Kabra: And receivable days, if you can tell?

Vijaya Gupta: 88.

Gunjan Kabra: 88. Also wanted to understand that on the raw material front, how much is China-based sourcing and how much is from our parent company RHI Magnesita, if you can bifurcate?

Parmod Sagar: Yes, roughly 25% is from China, and maybe 10%, 12% is from parent company, which we can increase. In any case, we can rely other than China also from our backward integration in South America, North America, Europe. So, as of now, it is about 10% or so. 10%, 12% from parent company.

Gunjan Kabra: Sir, 10%, 12% is parent company. 25% is what you said in China. So, rest is?

Parmod Sagar: Rest is from India and from other sources, like Turkey. Some products are from our company. Some products are coming from other Africa, like graphite etc., is totally coming from South Africa, Australia. So, there are many countries other than China, and parent company from where the raw materials are coming. And India is also big source for low grade DBM or bauxite.

- Gunjan Kabra:** And Dalmia Bharat also with, is it operates at maybe an optimum capacity utilization? Is there a potential of margin expansion there also or like, currently, I think it's we are doing around 14%, 15% of EBITDA margin. Is that possible with Dalmia, because it's still at around 10%?
- Parmod Sagar:** It is going to be, you know, time taking when we really understand how much margin we will be generating from that business, because the business dynamics is totally different. They are catering the Dalmia OCL is catering to low end products also, like alumina bricks and mixes, which are not very competitive or niche market products. It's like a commodity product where the margins historically are less than niche market products. So, I cannot say it will reach to 14%, 15% or so, but I can say, overall, when we consolidate, it will be 14%, 15%.
- Gunjan Kabra:** Sir, I thought even, so consolidate, it will be around 14%, 15%, but I thought that even RHI Magnesita, the Indian plant also has bricks, and we also have the specialized refractories that we do. So, even the product profile is different with respect to industries that Dalmia caters to agree. But I thought if we can do around 14%, 15%, is that the possibility for Dalmia Bharat also, because I thought that the product mix is not very, very different than what we do?
- Parmod Sagar:** No, I think there is a difference in product mix, but still, let's agree on this what you are saying. But it will take time. I cannot comment on the timeline.
- Moderator:** Thank you. Ladies and gentlemen, we take that as the last question. I would now like to hand the conference back to Mr. Parmod Sagar – MD and CEO; and Ms. Vijaya Gupta – CFO for closing comments. Over to you.
- Parmod Sagar:** So, thank you very much everyone for taking out time from your busy schedules and standing by us, supporting us throughout, and looking forward to your continual support in coming days. I from RHI Magnesita India's management side can assure you we will try our best to run your company as efficiently as we can and try to improve the margins wherever possible,. So, rest assured, we will not lose our focus on growing this company. Thank you so much.
- Vijaya Gupta:** Thanks a lot, sir. And thanks everyone for joining us and look forward to you, such interactions in future. Thank you. Have a nice day.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of RHI Magnesita India Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.