

Morganite Crucible (India) Limited
Morgan Advanced Materials
Molten Metal Systems
B-11, M.I.D.C., Waluj
Aurangabad - 431 136,
Maharashtra, (India)

Transcript of the Investor/Analyst Meet held on December 12, 2023

Attendee:

Mr Aniruddha Karve –Director MCIL
Ms.Pooja Jindal – Company Secretary
Ms. Saloni Hemnani- Molecule Ventures

Ms.Pooja Jindal: Hello Aniruddha Sir, Ms. Saloni will join us shortly.

Mr Aniruddha Karve: OK, so let's wait for Saloni and then you will take notes as we go on.

Ms Saloni Hemnani: Hello Sir, apologies for the delay, there's was some issue with audio and video with my PC.

Mr Aniruddha Karve: Hello, I do have another appointment at 5:30 are you fine with 20 minutes our we can reschedule.

Ms Saloni Hemnani :Ok, I would just cut straight to the questions now.

Ms Saloni Hemnani: So I think it's been a year now since last we had a the meeting, my first question would be regarding some updates on the industry market size. Last time you mentioned it was around INR 200 million, which is around 2000 crores.

Mr Aniruddha Karve: Yeah.

Ms Saloni Hemnani: Was that the global or the Indian market size that you were mentioning ?

Mr Aniruddha Karve: That was global.

Ms Saloni Hemnani: So any changes in that Sir has it grown from there or the rate of growth, has it improved?

Mr Aniruddha Karve: No, I would say I would say that it's more or less flat.

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Mr Aniruddha Karve: So I think that we're seeing growth in places like India, Indonesia, Vietnam, you know, some faster growing economies in Asia. We see shrinkage in Europe and that's primarily because of the war and the effects on the economy, inflation etc. What we're seeing is you're seeing some of our customers go out of business, so more or less, I would say, OK, the growth in Asia is being offset by a decline in the Western markets.

So I OK, maybe that's gone up to 205 million, but not very much. I would consider it in terms of inflation or flat market.

Ms Saloni Hemnani: OK. In India, what's the size, Sir?

If you have an idea the current size.

Mr Aniruddha Karve: So in India, I think what we are looking at is about I think 150 crores.

Ms Saloni Hemnani: Okay.

Mr Aniruddha Karve: 150 to 180 crores in INR would be the market size.

Ms Saloni Hemnani: Okay.

Mr Aniruddha Karve :So about 1/10 of the market like you can, you can roughly say well the 10th of the market, it would be in India

Ms Saloni Hemnani: Right, So because we mentioned our market share to be around 40% in this, so we were basically mentioning that in our Annual Report(AR).

Ms Saloni Hemnani: So that's the global market size that we are thinking of, right? Any potential targets that you have in mind of what you want to achieve in terms of market size?

Mr Aniruddha Karve :Oh! market share or market size?

Ms Saloni Hemnani: Market share.

Mr Aniruddha Karve: Market share, we haven't sort of set a target in terms of market share. And the reason that is a bit of sorry, to say is confusing number.

That wouldn't be a confusing number because we haven't assessed yet, what if any market share we have lost due to some of the recent pricing increases.

Ms Saloni Hemnani:Right.

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Mr Aniruddha Karve: So if you look at our results in Q1 and Q2, , we've declared pretty decent margins and some of that has been passing on price increases.

Ms Saloni Hemnani: Right.

Mr Aniruddha Karve: So in 2024 will be doing an assessment of, OK, so I'm sure we've lost some business to price, although the overall value would gone on volumes down that we will take a step back and reassess.

You know, we normally don't target market share we typically take the run rate of business and then look at customer churn in a sense.

You know what can we Win?

What can we lose because market share does it's it doesn't give you a sense for the margin, right.

Ms Saloni Hemnani: Okay.

Mr Aniruddha Karve: There are sections of the market, but not attractive from margin standpoint

So we have exit those.

Ms Saloni Hemnani: You mentioned..... sorry

Mr Aniruddha Karve: Yeah. go ahead.

Ms Saloni Hemnani: So you mentioned the 150 Crore India, but a top line itself is 150 could also do you mean to say that?

Mr Aniruddha Karve: But our sale in India is only half of them.

Ms Saloni Hemnani: Right, Domestic you were saying.

Mr Aniruddha Karve: So MCIL export, yeah.

Ms Saloni Hemnani: So who will do you think apart from Vesuvius is in this space in India?

Ms Saloni Hemnani: In India, we have a couple of competitors.

Mr Aniruddha Karve :We have zircar crucibles which is now called Zipcar.

Ms Saloni Hemnani: Zircar correct that is.

Mr Aniruddha Karve :We have a new company called Mass Global which has come up which is typically which is actually rapidly a rapidly occupying the space that zircar holds because they're actually going up to their customer.

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Ms Saloni Hemnani: But if right?

Mr Aniruddha Karve :And there's another sort of small player called Aguilar Crucibles that has come in.

Ms Saloni Hemnani: Okay.

So regarding the numbers, obviously these past two quarters, the numbers were phenomenal in terms of margins. So any specific reason for that in terms of sales?

Also, I would just ask the question simultaneously that auto has been the primary driver for our revenue growth over the years.

So this growth was led by auto specifically or is there any new industry that is come up?

And again, if you could explain the reason for such a jump in margin and sustainable leverage, what are you looking at?

Mr Aniruddha Karve: So, well, I look, let's just sales question first.

Ms Saloni Hemnani: Okay.

Mr Aniruddha Karve : Yes, auto is the big driver for us, although you probably know better than I do what the auto outlook is for India.

Ms Saloni Hemnani: Yeah.

Mr Aniruddha Karve :So it's a bit soft post Diwali, but as the as far as the margins go, umm we we had a combination of two things.

One is we finally push through all the sales price increases that we are planned.

Ms Saloni Hemnani: Okay.

Mr Aniruddha Karve :You know it because all of them are more delayed depending on negotiations with customers.

And so at the same time, we saw two things happen. One is the plant got more efficient ,So Nitin and his team here, the site have been driving a lot of efficiency actions.

So we're seeing productivity improvement and we also to be honest, have seen the inflation taper off a little bit in, in raw material and freight.

So we have, you know, a good combination of sales price increases help by the efficiency improvements and the plan and as well as help by some raw material inflation, you know, settling down.

So that's been the primary reason for the the margin jump in the and I think it's quite sustainable because what we found is that we, we don't intend to give a lot back on price.

We might have to do that in some quarters, right?

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In some market quarter the market, we might have to do that, but our efficiency actions are sticking and inflation forecasts sort of, you know continues to be quite tame .

We were worried about energy for next year. We're still are worried about energy, but our contracts for gas are indexed to the global oil price. So global oil price right now is coming down. Below \$70 a barrel, so we see a pretty reasonable raw material input and Robert Energy input forecast.

Mr Aniruddha Karve: So I'm quite confident that we can hold those marks.

Ms Saloni Hemnani: And Ohh said over the years, if you look at like the last decade or so, we have had very muted sales growth ,because we really did nothing on the expansion side the last couple of years you had your Avatar project one, Project 2 where the company almost spent around 62 crores and sold Mehsana plant as well along with it.

So how much legroom is still there for us to grow?

Because only after CapEx, we've been able to see some growth in our topline

So how much of that legroom is still left, and what are our planned expenditure to keep, you know, maintaining this momentum of sales growth?

Mr Aniruddha Karve: So the Avatar expect the Avatar expansion probably cost close to 40 crores.

Ms Saloni Hemnani:Today,Okay.

Mr Aniruddha Karve: I mean, we spend, we went, we have a normal outlay of sort of 10 crores a year and you know normal CapEx you know so you remove that 40 crores yeah.

So we have like room. I think we can easily get to about 250 cr.

Ms Saloni Hemnani:Okay.

Mr Aniruddha Karve :See all with the capacity we have without making significant investment, I will buy an obviously is to capitalize on that. We are a little behind schedule my own schedule because our export markets are quite soft, right?

Ms Saloni Hemnani:Today, correct.

Mr Aniruddha Karve:So Europe, the demand is down, Asia the demand is down.

The India were growing, but we're growing in the higher margin business.It's not.

Ms Saloni Hemnani: That I've that I've.

Mr Aniruddha Karve : We're not chasing growth for the sake of chasing growth.

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Ms Saloni Hemnani: Growth for the sake of margins, correct.

Mr Aniruddha Karve :Yeah.

Ms Saloni Hemnani:Yes.

Mr Aniruddha Karve: One of the reasons we've seen the muted sales growth in from say, 2012 to 2019,2020 because pandemic year 2019-20 and in 2021 is because we really got selective about which business to take.

Ms Saloni Hemnani: Which which ones you take, yeah.

Mr Aniruddha Karve: They could have had we could had more and we today, even today we can get more

Ms Saloni Hemnani: That is that right?

Mr Aniruddha Karve: In fact, we are having our distributors meeting tomorrow in Aurangabad and you know all of them are going to tell me 'Sir aap Price Support karoge to hum aur jee sakte hai'.

But that's not the point.

The point is, make sure we have a sustainable margin to take forward to support the investment that we are making.

So you know, our goal is to get to the 300 cores as quickly as possible.

In the out year or near year. So let's say 2024-25, I would like to climb towards 250 and above and we have the capacity to do that.

We don't need to do any sort of big investment for that , because the Avatar project gave us that and gave us that room and if we can bring that additional 70-80 crore in at the margin we have today, it's a pretty it's a pretty good business plan.

So that's what we're going after.

Ms Saloni Hemnani:Oh.

Mr Aniruddha Karve: We know that we cannot get everything from the Indian market. So today our domestic versus export the 50-50.

Ms Saloni Hemnani :Yeah, it used to be always around 50-50.

Mr Aniruddha Karve:Yeah, Good.

Ms Saloni Hemnani :I think last year domestic was very high because obviously of the export being low, yeah.

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Mr Aniruddha Karve: But this year we are back to 50-50 and you know, if we can see some recovery in the European market after say Q2 of next year's calendar Q2 not right, then we should be able to get there quicker because we have some good attractiveness of the export side.

Ms Saloni Hemnani :I'm sorry, this new growth that you are saying of 250 to 300, which industry in particular are you seeing auto again is going to be primary winner for this or any other industries we are we have we are seeing some traction coming from?

Mr Aniruddha Karve :So we are looking to get into the lithium and battery space, but we are not considered that enough forecast for the next two years.

Ms Saloni Hemnani:Right.

Mr Aniruddha Karve: The way the growth come here is just geographic markets
Not so much industry.

Ms Saloni Hemnani:Okay.

Mr Aniruddha Karve: So I'm looking at shifting products from our German factory because you know in Germany we have a couple of problems.

We have gas price, it's just the roof right after the war has started with Russia and Ukraine and the other one is that we have problems with finding people.
Internal unemployment is very low and our industry is not a very attractive industry for younger people to come and work.

So when you look at that two aspects, you know our manufacturing plant in Germany is gonna be rapidly become less competitive than it has been.

Ms Saloni Hemnani:Right.

Mr Aniruddha Karve: Therefore, we are taking the action of removing some of those product lines to India, which we can do that based on the avatar work that we did.

Ms Saloni Hemnani:Right.

Mr Aniruddha Karve: And so it makes somewhat there was maybe not for MMS globally not a huge increase in volume, but it will be for MCIL a good thing to build for because you know MCIL will get some other volume.

This is our plan As we look at it.

Ms Saloni Hemnani: So your planning to shift the plant and machinery from the German factory to Morganite Crucible.

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Mr Aniruddha Karve: No, no, just the technology, just the process.

Ms Saloni Hemnani: just the technology OK and from that we are assuming we can generate around 50 crore or more sales.

Mr Aniruddha Karve: Yeah, I think some of that, I mean, we're 40 crore or so will come from there.

The other one will be just, you know, growth and market.

Ms Saloni Hemnani: Okay.

Mr Aniruddha Karve: You know, just the market because India is growing Indian market, I think funding as 6- 8% to India.

So we'll tap that plus you know as the current export markets come back for our current product, now we should be able to see some improvement there as well.

Ms Saloni Hemnani: Right, so Sir in AGM we've been very hesitant to really, you know, be aggressive in giving our estimates.

We have always said 10% to 15% sales growth will grow just to be conservative, right?

So on the realistic basis, once you achieve 250, what sort of plans are there within the company of how to achieve the next leg of growth?

Are we looking for expansion and is the industry capable of taking on our expansion like the growth rate itself in the industry?

Just trying to understand the whole dynamic of the industry of how it is changed in the last two years because there there is some change in the numbers of you as well as some other private companies in this space.

Mr Aniruddha Karve: Yeah.

So I don't think we can go from 250 to 400 just based on the Crucible market, right?

Ms Saloni Hemnani: correct

Mr Aniruddha Karve: So I think we are starting to develop some products for the lithium and battery space.

It's completely new market for us, right, nothing to do with metros and all you have acceptable, We're making some investments here in a in Aurangabad for that right. As of now, there remain sort of smallish investment because we need to prove our product, but that would be the next step for me.

Ms Saloni Hemnani: Okay

Mr Aniruddha Karve: I mean, I don't think metals market is going to give us that Bill 500.

So you know, if you look at MMS today, globally, our sailed into the metal market is only 600 crores in Indian Rupees, 650 crores something like that.

Ms Saloni Hemnani: Right.

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Mr Aniruddha Karve: So I don't see 400 of that coming from India because it's just not right or China.

I have a planned in China that generates, you know, certain amount and Germany will continue to have their sales in Europe.

So if you want to go from 250 to 400, we have to do it on the basis of getting into a different market and and what we've selected right now is the, let's say my battery market because that has a good exponential growth profile over the next 10 to 15 years.

Ms Saloni Hemnani:Okay.

Mr Aniruddha Karve :I don't have whatever your forecast for you because we are not there yet.

Ms Saloni Hemnani:Okay.

Mr Aniruddha Karve: I think you know we we are filing for patents around this product and we've already done that and it would be published in early 2024.

So once we get there, we also have customer trials going on for this forum,assuming we get some full.

Ms Saloni Hemnani: Ohh, what product exactly? In lithium and battery

Mr Aniruddha Karve: It is a container for processing cathode powder.

Ms Saloni Hemnani:Okay.

Mr Aniruddha Karve: So this is one step below battery pack.

Ms Saloni Hemnani:Got It.

Mr Aniruddha Karve: We're talking about battery.

So we are looking at that space because there you have a combination of high temperature, you know, chemical abrasiveness and you know performance requirements which really fits our kind of expertise in the material space.

Ms Saloni Hemnani:But if.

Mr Aniruddha Karve; So that will be the next step for me.

Ms Saloni Hemnani:Right.

Mr Aniruddha Karve: So I think we can get there, get up to like 250 to 300 based on just product moves and mark the market growing and recovering and so on to go from 400 to the uh sorry, 300 to 500 or 600, we'll have to add a different vertical and that's what we're working on now.

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Ms Saloni Hemnani: The and with this 250 to 300.

Sorry, because the time is short, I'm just getting to the specifics first because I had a detailed list of questions I wanted to understand more on the business side as well.

Ms Saloni Hemnani: So with this 250 to 300 crores, are we assuming that we're able to do around 25% margin sustainability or we can do more than that?

Mr Aniruddha Karve: I wouldn't get too enthusiastic on the margin beyond what we are doing today.

Ms Saloni Hemnani: Okay, price divisions?

Mr Aniruddha Karve: I think because like I said to you know, these couple of quarters we've had a couple of you know things going following in the right falling in the right direction

Ms Saloni Hemnani: Got It.

Mr Aniruddha Karve: I don't know if I say we can grow the margins beyond this in the Crucible space that we get to patented products, differentiated products in the battery space.

Ms Saloni Hemnani: Right.

Mr Aniruddha Karve: Yeah, we should be able to command probably slightly higher margins right with that.

But again, that's way too premature.

We're not at the point where we can even you know, that we can sort of, you know, generate revenue from that.

Ms Saloni Hemnani: And.

Mr Aniruddha Karve: But no, I would say that the I would even guide a little bit to say, OK, you know some of the last two quarters the margins are probably on the robust side.

We don't want to get too much lower than that, of course, but there are things like inflation and price pass throughs that we may not be able to control, right?

Ms Saloni Hemnani: Right, any potential price revisions? Are we looking ahead in this year or we have taken all those?

Mr Aniruddha Karve: I think we've taken all of them in a some products.

Do you still have space? We probably will go after some selective price increases. We certainly won't do a blanket one like we did last year.

Ms Saloni Hemnani: Right, makes sense here.

Ohh so yeah, so regarding machine component you used to say that you know the revenue from machine component used to be 3% to 5% in your target.

It was to take it to 15% to 20%.

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Mr Aniruddha Karve: Yeah.

Ms Saloni Hemnani: It was to take it to 15% to 20%.

Mr Aniruddha Karve: Yeah.

Ms Saloni Hemnani: Ohh any any sort of improvement over there in any update on that?

Mr Aniruddha Karve: So I think that this year we will see. the good thing?
I think we probably ticked upwards towards 5% to 6% of revenue, I mean, just once December is closed, I'll have a better idea.

Ms Saloni Hemnani: Right.

Mr Aniruddha Karve: But you know, we've added about ohh I don't know what the number is for MCIL but globally you know we've added about 12 to 15 crores of revenue in that space.

So obviously some of that is coming from MCIL, some of it is coming from the from these.

Ms Saloni Hemnani: Right.

Mr Aniruddha Karve: So we remain, I said, cautiously, optimistic that we can get there to 15%.

I you know some of this 250 will come from that as well, right?

So as we mature our products and we start to use that market, then we can sort of grow at scale, especially in the Middle Eastern markets where a lot of primary aluminium is first.
But we remain on track largely with two our plan then I don't see any problem.

Ms Saloni Hemnani: Okay.

Ms. Pooja Jindal: OK, only just a minute is left, can be conclude the meeting.

Ms Saloni Hemnani: Just one question, ma'am, regarding the, you know management itself. So I think in July 2022, we had the call where Mr Vikas, I think used to be a part of the company and then he resigned within a year.

Mr Aniruddha Karve: Yeah.

Ms Saloni Hemnani: So after that, because I'm aware that you are handling most of the operations, I think on the MNC side also you're handling Morganite operations correct.

Mr Aniruddha Karve: Yeah.

Ms Saloni Hemnani: So, India specific is there any person who is single handedly took like looking after this or so on sort of management yeah.

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Mr Aniruddha Karve: So no it's

Ms Saloni Hemnani:Correct.

Mr Aniruddha Karve: So nowadays Nitin Sonawane is our executive director for the MCIL and he sits in Aurangabad.

Ms Saloni Hemnani:Got It.

Mr Aniruddha Karve: So all the operating while some of the strategic commercial decisions are being made centrally, he has the operational responsibility of maintaining you know, the performance and compliance and so on.

Ms Saloni Hemnani: Thank you, just directionally, I just wanted to understand your perspective over the last 2-3 years because this company has always been on the radar.

I'm just talking from investors perspective that has been on the radar of a lot of my fellow investors.

But what they've always found is because of the backing of MNC, the focus might not be to solely, you know, grow this company because it's a part of the group, right.

Mr Aniruddha Karve:Yeah.

Ms Saloni Hemnani: So just wanted to have your take on that.
How have we shifted our focus to the Indian operations? And what sort of has changed in the last two, three years?

Mr Aniruddha Karve: So two things have changed, One is we there's more certainty in India now in terms of regulation and so on.
You were able to sign the APA, which was a big deal.

Ms Saloni Hemnani:Right.

Mr Aniruddha Karve :OK, so until we got from tax certainty because there was a feeling in the group that the tax authorities in India quite priority and they want to go after you, especially the vodafone case, all of those things and vodafone company you Company, there was a bit of a hesitation having MCIL signed APA was a big factor, the second factor was just India's growing and our performance has been great.

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So I think that you know those two things have changed, but I think having that certainty having a bit of political continuity with the Indian situation and of course good performance by MCIL as what I would say.

Ms Saloni Hemnani: Sure.
Thank you, Sir for your time.

Mr Aniruddha Karve: Yeah.

Ms Saloni Hemnani: So I'll sure stay connected and if I have any further queries, I'll just Mail you.

Mr Aniruddha Karve: Please reach out to Pooja and you know she will arrange, OK.

Ms Saloni Hemnani: Thank you so much for your time.

Mr Aniruddha Karve: Thank you, Bye.

Ms.Pooja Jindal: Thankyou.

Ms Saloni Hemnani;Nice talking to you.
