SOMANY

Date: 15th November, 2023

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai — 400 001
Scrip Code: 531548

National Stock Exchange of India Ltd. (NSE)
Exchange Plaza,
Bandra Kurla Complex, Bandra (E),
Mumbai — 400 051
Symbol: SOMANYCERA

Dear Sir/Madam,

Subject: Transcript of the Earnings call for Q2 of FY 2023-24 pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

In reference to our earlier letters dated 03rd November, 2023 & 09th November, 2023 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the Transcript of the Earnings Conference Call on the Financial Performance of the Company for the Quarter & Half Year ended 30th September 2023 held on Thursday, 09th November, 2023.

The above information may also be accessed on the website of the Company at www.somanyceramics.com.

This is for your information & records.

Thanking you,

Yours Faithfully,
For Somany Ceramics Limited

Ambrish Julka

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Encl: as above

"Somany Ceramics Limited
Q2 FY2024 Earnings Conference Call"

November 09, 2023

HOST:	**MR. NAVIN AGRAWAL - HEAD, INSTITUTIONAL EQUITIES - SKP SECURITIES LIMITED**
MANAGEMENT:	**MR. ABHISHEK SOMANY - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – SOMANY CERAMICS LIMITED** **MR. SAILESH RAJ KEDAWAT – CHIEF FINANCIAL OFFICER – SOMANY CERAMICS LIMITED** **MR. KUMAR SUNIT – HEAD (STRATEGY & IR) – SOMANY CERAMICS LIMITED**

Moderator: Good afternoon ladies and gentlemen, welcome to Somany Ceramics Limited's Q2 FY2024 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the management's opening remarks. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Navin Agrawal – Head, Institutional Equities at SKP Securities Limited. Thank you and over to you Sir!

Navin Agrawal: Good afternoon ladies and gentlemen. At the outset apologies for the delay. On behalf of Somany Ceramics Limited and SKP Securities, it is my pleasure to welcome you to this financial results conference call. We have with us Mr. Abhishek Somany – MD and CEO. Mr. Sailesh Raj Kedawat – CFO, and Mr. Sunit Kumar – Head Strategy and IR. We will have the opening remarks from Mr. Somany followed by Q&A session. Thank you and over to you AbhishekJi!

Abhishek Somany: Thank you Navin. Thank you for joining us for the earnings call of Q2. As you can see the results it has been a muted quarter as far as volume is concerned and obviously in that case the value is concerned. We have grown only by about 6% on sales. EBITDA however has gone up correspondingly, PBT and PAT has gone up in a very handsome way that is owning to two attributes one is lowered fuel costs, energy costs, and also slight bit of improvement in our realization that is mainly purely because of the extra value added products which has started kicking in. As you can remember we have put in significant capacity for GVT in the past 24 months so that has started slowly and steadily showing up in more value added sales. Hopefully this trend will continue. The max plant which was our latest GVT large format slab tile plant has started this quarter and we should start getting the production from that in the fourth quarter of this year which would again add to both volume and also to value. As far as our ceramic polish vitrified which is PVT and glazed vitrified which is GVT segment is concerned. In Q2 the ceramic was at 37% down 2% from 39%. The PVT was almost flat from 28 to 29% and the GVT has improved from 33 to 34 but in H1 it has improved from 32 to 34% so this improvement trend will continue and we hope that GVT would run past the 35% mark this year and closer to the 40% mark later probably next year. The sanitary ware and bath fittings again with the muted demand the sanitary ware and the bath fittings also have been muted; however, in that the bath fittings have done much better than sanitary ware. The sanitary ware growth has been just 3% whereas the bath fitting growth has been 30%. This trend showed balanced out somewhere where the sanitary ware growth also we are hoping that would become much better in H2. The gas prices which are firming up now closer to winter every year this summer so that is firming again for us, there has been approximately Rs.2 to 3 increase from the average price of last quarter which is in the current quarter as we speak in October the firm up in gas has been Rs.2 to 3 per standard cubic meter from the average of the last quarter; however, this is still not area of concern. Currently we are hoping that no other global factor disrupts his movement. The fourth part which is led to slightly better margin is capacity utilization if you can remember in the first quarter our capacity utilization was nearing the 70%. We are now closer to the 85-86% specifically in tiles we have been approximately 82%, sanitary ware is 52% and the faucet division is closer to 70%. Faucet we are hoping that this would again move to ahead of 80% and sanitary ware we should be in the 70 to 75% range in H2. Tiles we are hoping that we would better this by a couple of more percent. The brand spend that again as I have always maintained that the capacity utilization is a big lever in the margins for any tile company. The brand spend has been at par with what we had maintained that is 2.5 % in H1; however, in Q2 it is a bit higher closer to 3% so overall if you see in the year we would be on the trajectory of about 2.8-2.9% of revenue as far as brand spend is concerned. There has been a significant improvement in the new dealer addition. We have added 130 new dealers net of what we lost in H1 and 22 new showrooms net of some showrooms which got shut, so significant improvement large part of that has happened in Q2 and this trajectory again would get only better as we move in H2.

I would now come to the guidance I think the guidance looking at the muted growth in Q1 and we were hoping for a better Q2 and I was maintaining that we would be able to attain a good teens growth as far as volume value is concerned. I think to be cautious as to how the demand has moved in the Q2 we are now very confident that we will be able to achieve a high single digit growth as far as value volume is concerned so that is something which I am revisiting in this quarter. As far as the margins are concerned we should be able to maintain current margins and if the volume goes a little higher margins will only improve from here. The only caveat there is there should not be any huge impact of oil and energy like we saw after the Ukraine war so anything in the current range $10 plus or minus we are fine but anything which goes crazy like last year that would have an impact but minus that we should be able to maintain our margins. This kind of sale which I am projecting and this kind of margin which I am projecting is needless to say that our balance sheet discipline will continue and we do not wish to have any compromise on any balance sheet discipline. If you see our working capital days standalone and consolidated that is a clear indication as our balance sheet is well under control. Exports for the industry has grown, in August the figure of exports from Morbi was 2100 Crores so if I had to extrapolate that and annualize that we are looking at 24-25000 Crores export from next year and this year we are quite confident that the export from India would be closer to the 20000 Crores figure so this is where the normal working of the company is concerned.

Now we move towards another new thing which we have witnessed which is SREI Bonds that is Rs.18.4 Crores provision which we had made about three to four years ago on the SREI Bonds. Apparently there has been a resolution from NCLT. We have got knowledge of that. We do not have 100% details on that but whatever paper we have that says that we would be able to get back closer to Rs.6 Crores out of the Rs.18.4 Crores this is yet to be realized but the information which has come from the authorities and NCLT tells us that we would be able to realize close to Rs.6 Crores out of our write-off so the rest of it which has been provided once the final resolution is there in place we would then write-off the balance amount which is currently only provided for. This is as far as the SREI Bonds is concerned. Another highlight which I have already mentioned earlier in my call is the max plant very happy to say that, that started on time and we are looking forward to a launch closer to early next quarter or the last part of this quarter so looking forward to that particular launch and looking forward to a much better H2 going forward. Thank you so much. I would now like to open this to Q&A and before I say that Happy Diwali to every one of you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We take the first question from the line of Ritesh Shah from Investec. Please go ahead Sir.

Ritesh Shah: Yes thanks for the opportunity couple of questions. Sir first is on working capital if you could please explain specifically on the payable days what is the change in strategy will it impact the interest cost or not that is the first question, second is on the cost curve if you could give a regional flavor and specifically how it is faring for Morbi or west versus on a blended basis I think that is the second question, second question is basically every quarter you give this numbers and rupees per SCM basis for different regions?

Abhishek Somany: In my Bahadurgarh plant which is my Haryana plant Q2 we are at an average of approximately Rs.42-43 a standard cubic meter, in Morbi it is the same about Rs.42-43 a standard cubic meter and in our south plant this is at Rs.50 a standard cubic meter. This has all gone up by Rs.2 to 3 as we speak does that answer your second question Ritesh?

Ritesh Shah: Yes Sir so when we say it is Rs.43 for west should we read this that this would be a broad ballpark number for entire Morbi as well?

Abhishek Somany: Whatever gas we are getting we are getting contracted gas so this is a ballpark number for everybody who is on the contract gas whereas some people in Morbi are not contracted they are Rs.2 to 3 more expensive but that is very few people.

Ritesh Shah: If I have to just do a followup over here I think one of our peers the number what they indicated for west was significantly lower than 43 it was lower by almost Rs.6 to7 per SCM probably I can check on that or circle back to you on this question?

Abhishek Somany: In the west it is impossible because we are getting from the similar single source Ritesh we are getting from GSPC unless that peer has access to some gas which is the ONGC gas that I am not aware but 99% of Morbi is on GSPC and their gas will be anywhere between 40 and 42 depending whether they are using propane or LPG or natural gas so it is not going to be more than a rupee, rupee and a half difference.

Ritesh Shah: Sure and Sir on a blended basis north, west, south at a company level?

Abhishek Somany: 44.

Ritesh Shah: Perfect this is helpful and Sir on the first question on working capital specifically?

Sailesh Kedawat: So Ritesh on working capital I think you are seeing a jump in freight rates close to 100 Crores if my numbers are right I think that is your question around working capital?

Ritesh Shah: That is right.

Sailesh Kedawat: So Ritesh what we were earlier doing was till last year those vendors who wanted to get early payment from us we had given token facilities from bank, the discounting was enabled for vendors and vendors used to come, get their bills discounted using our lines so this was there till last year interest was on the vendor account. We have discontinued the facility this year, what we have done is we have done a paying arrangement for the vendor so any vendor who wants to avail an early payment they can reach the payer they can get the payment and we make payment to the vendors in the due date so there is no change in payable day for vendors, the payable day remains the same, it is only change of arrangement which has happened where vendors are not utilizing our lines so if they want to get early payment they will utilize that arrangement.

Ritesh Shah: Sir sorry you went a bit fast. You said now what we are doing we are paying the payable days remains the same for the vendors I could not connect that.

Sailesh Kedawat: See the payable days for vendor remain the same, any vendor who wishes to get an early payment earlier they were using our bank lines they were getting their bills discounted using Somany's bank lines, so whenever they used our bank lines our borrowing was going up and the payable was going down correct interest on vendor account, now what we have done is if any vender wants to get an early payment there is a paying arrangement which is made, they go to the payer, payer funds the banker, payer funds to vendor and we make payment to the payer on the due date so there is a shift which has happened from the short term borrowing which was there earlier in our discounted line to vendor payables that specially has happened. Firstly the vendor payable days remain the same there is no change there.

Kumar Sunit: Just to clarify the meaning vendor payable days remain the same there is no change in credit period as such so whatever credit period we are getting from supplier it as it is and without any third parties to supplier arrangement it is the same if anyone wishes to get early payment they can go and use that arrangement which we have done and they can get the early payment at their own cost so this is what we are trying.

Ritesh Shah: Will there be any change in interest cost.

Kumar Sunit: It was not in our account Ritesh earlier also, now also.

Ritesh Shah: That is helpful. Thank you so much.

Moderator: Thank you Sir. The next question is from the line of Viraj Mehta from Equirus PMS. Please go ahead Sir.

Viraj Mehta: Hello Sir and congratulations for good set of numbers. My first question is Sir regarding the demand outlook obviously in your opening remarks you have said that you have cut your guidance in terms of what we are thinking and what will happen but Sir as far as exports are concerned they are doing very well so the whole industry was expecting second half to be better that seems to have been pushed out what factors do you think have played out for that to happen?

Abhishek Somany: So Viraj I still maintain second half will be much better if you have seen we are looking at a 6% average growth for industry leader and us in the first half correct and in H2 we are saying we are looking at high single digits which means that we will grow at a much more significant pace in second half to get my average down to that high single digit so I still maintain H2 will be good. Export is different animal, which Morbi is the significant exporter from India, the branded players do not export even a fraction of what Morbi does so if we look at a Rs.20000 Crores export the top three players which is Somany, Kajaria, Johnson would collectively not even export about to Rs.200 to 250 Crores out of the 20000 Crores so export for us is still building up. We do not give any open credits or we do not work on very, very, very long LCs. We do not work with LCs from unheard of banks, so all of those restrictions we are very careful while we export because for two reasons A we do not want to disrupt our balance sheet, B we are also producing far better quality and we get a brand premium in India so export is doing very well, domestic probably will remain completely flat as far as India is concerned.

Viraj Mehta: What I meant for exports was if exports do well then the capacity in Morbi gets shifted there and then we face lesser competition domestically that was the whole point I know we do not export or Kajaria do not export.

Abhishek Somany: You are right but let me correct you if you remember about couple of hundred companies came up in the last 18 months after COVID which started in Morbi all of them were for export focus they got in a catch-22 because by the time they had started to fire up and come into production the Ukraine war pushed the freight prices absolutely to a sky rocket figure, in the last 18 months freight rates have started coming down, so all of that capacity which was actually built for then it started getting consumed today, so it is not that we had a lot of capacity which was 100% utilized and that is getting exported it is the unutilized capacity which is now getting exported.

Viraj Mehta: Right, thank you so much and Sir when you say that you are looking at high single digit that means for the second half you will still have to do like 12, 13, 14% kind of growth?

Abhishek Somany: It is a stiff path but we are going to try and achieve that. I am staying that is a stiff path you are absolutely right but we are going to try and achieve that.

Viraj Mehta: How much Sir would be realization growth and how much of that would be your growth?

Abhishek Somany: Viraj realization growth there is going to be out of the value added segment and I think in fourth quarter you will see a little more of that because the max plant would have started contributing to the realization which is a product which is significantly higher so I do maintain that with the exports taking a lot of a load of Morbi I do not think realization is under serious pressure.

Viraj Mehta: Thank you so much Sir and best of luck.

Abhishek Somany: Thank you. We take the next question from the line of Nikhil Agrawal from VT Capital. Please go ahead Sir.

Nikhil Agrawal: Good afternoon Sir and thank you for the opportunity so my question was like what is the difference between margins between outsourced and your JVs and your own manufacturing if you could help me on that?

Kumar Sunit: So Nikhil as far as our product margin is concerned with respect to sourcing mix our own plant versus the JV outsourced right which includes JV at a standalone level and at consolidated level, own plants means JV and own plants together so obviously gross margin would be higher as far as own plant is concerned because traded outsource volume comes at a total purchase cost plus manufacturing margin of the outsourced partner, but if you talk about the bottom level which is more of a PBT level which is the right matrix to evaluate then it is more of a product which makes the difference and not the sourcing mix largely right so it would be normal to say that if I manufacture the same product and if I outsource the same product then obviously it will make a difference but if manufacture a low end product and outsource high end product then it would be other way around and my margin would be better in outsource so it cannot be generalized that much so you have to take the providence of both sourcing mix as well as product mix then only you will understand it properly.

Nikhil Agrawal: The reason why I am asking this is because your outsourcing in JV which has increased and your own manufacturing has reduced quarter-on-quarter but still your margins have improved so like going forward if your own manufacturing as a percentage of increases do we expect more margin expansion there?

Kumar Sunit: I will tell you what is happening. When you are seeing the revenue mix in own JV and outsource right here JV is dissected but when you look at the margin which is operating margin at a consolidated level JV is not dissected because JV is here treated as own plant in case of consolidated operating margin right so you have to correct the investment and then interpret it. When you say JV in sales revenue mix graph which is in our investor deck right it is not JV for the sake of consolidated financial it is actually own because it is lying and consolidation is happening and entire manufacturing margin is getting captured including our own margin.

Nikhil Agrawal: Sir you spoke about the realization from the broker in this call related to mentor financial services right?

Kumar Sunit: No, SREI bond, we had bond of SREI equipment of Rs.18.5 Crores so resolution plan is approved and that update was shared.

Nikhil Agrawal: So you expect to realize 6 Crores from that?

Kumar Sunit: Yes expected that is the likely expectation let us see when we get the final proceeds.

Abhishek Somany: That is what the authorities have told us.

Nikhil Agrawal: Alright got it. That is it from me. Thank you so much.

Moderator: Thank you Sir. We take the next question is from the line of Sneha Talreja from Nuvama. Please go ahead.

Sneha Talreja: Good afternoon Sir and congratulations on great balance sheet improvement. Just couple of questions from my end. Just wanted to understand the demand front in this particular quarter for where is it that tile demand has not been able to pick up some sense there?

Abhishek Somany: I think it is to do with all the inventory which is got sold was all made inventory so in the real estate now that a lot of new launches have happened tile demand generally picks up maybe 9 to 12 months from when the real estate starts getting built so you will see a lot of the tile demand coming in next year and in India I guess the traders have diverted their funds to various other investments in property in the last 12 months so that is also reduced the demand a little bit but otherwise there is no threat in the long term of any demand this is for short term.

Sneha Talreja: Is it trend to the demand like metros are doing well, the smaller cities are not doing well or the new residential is doing well and renovation is not doing well some of this trends in case you can highlight?

Abhishek Somany: So this time the demand has been tepid or a little less pretty much everywhere there is no specific trend that south is worse than north or north is worse than south neither has there been a trend between big cities and small cities it is an overall demand which is lower which is across India so when demand picks up it will pick up in the smaller cities which are for individual homes and as far as big cities are concerned that will pick up for the builder market, the cheaper builder market is more controlled by Morbi but the IHVs are controlled by other brands.

Sneha Talreja: Understood and I was recently also hearing that around 4000 odd Crores of investment is again happening in Morbi with some 40 players coming in is that on the basis of real estate demand pickup that they are envisaging or is it continued strong exports that we are seeing and you were talking about it hitting 2100 odd Crores a month last month?

Abhishek Somany: So a large part of that is for export, the balance is for renewing old equipment so they are getting rid of older equipment and putting new equipment this is not really a large capacity addition so for example let us say they have a 7, 8000 square meter kiln that will go down and a 10 to 12000 square meter kiln will come up so it is not going to be a massive increase in capacity. The third reason is of course looking at the demand in India so if we are looking at so much more capacity being added obviously we are going to be looking at more tiles to be sold in future.

Sneha Talreja: Understood Sir that was helpful. Thanks a lot and all the very best.

Moderator: Thank you. We take the next question from the line of Amit Purohit from Elara Capital. Please go ahead Sir.

Amit Purohit: I am trying to understand the profile of the customer which is witnessing a good growth since the overall growth has been about 6% in volume terms so which segment would have witnessed a good double digit growth for you?

Abhishek Somany: The answer to that is that our class of customer does not change, 80% of our product go into retail which is in IHV and some renovations for the upper middle class in that area and the balance goes into projects and government and the rest of it which is left goes into the corporate which is the organized retail, etc, etc so I do not think any specific area we have grown. All I can say is that this is a continue trend where the larger brands keep continuing to take market shares from Morbi in the domestic sector.

Amit Purohit: So broadly almost all of these three segments that you highlighted would have grown at a similar pace?

Abhishek Somany: Yes absolutely.

Amit Purohit: Second on the capacity that you talked about large slabs so the tiles which you are indicating what is the total capacity in that?

Abhishek Somany: It is been rated as a 4 million square meter plant but then it all depends on our product mix between the 15 mm tiles and the 9 mm tiles so that is yet to be seen as to what orders kick in for us. As you can imagine 15 mm obviously is a larger mass so it will produce lesser square meters so I cannot answer that question right now; however, the plant is rated for 4 million square meters at the 9 mm level.

Amit Purohit: What would be the realization difference between this on a per meter basis versus the normal realization that we report?

Abhishek Somany: So there are two things to it. Again it would depend on how much the 15 mm and how much the 9 mm so I would want to answer that question with more clarity next quarter when we start getting the orders and selling it would be only guess work at this time because I do not have the product mix.

Amit Purohit: Lastly just wanted to know what is our current dealer count and sales team and strength in the organization?

Abhishek Somany: The dealer count is approximately 3200 and the number of sales people across sanitary ware, bath fittings, and tiles is approximately 600, 650 people.

Amit Purohit: 600 to 650?

Abhishek Somany: Yes I do not have the exact figure.

Amit Purohit: No problem and dealer you said 2200 right or 3200?

Abhishek Somany: 3200.

Amit Purohit: Thank you Sir.

Moderator: Thank you. We take the next question from the line of Keshav Garg from Counter PMS. Please go ahead Sir.

Keshav Garg: So firstly on behalf of all the shareholders I want to thank you for the share buyback and Sir we hope that this is the first but not the last share buyback and secondly Sir coming back to the demand question so if we see all real estate companies where the volumes that they are doing are at all time high, their revenues are at all time high so the concern is that Sir is the polymer flooring substituting ceramic tiles so because Welspun and many other companies have gone into polymer flooring so what are your views on the same over the long term?

Abhishek Somany: If you are a shareholder you should be extremely fortunate that it is in a tile company and not a vinyl company it cannot substitute I will give you three pointers A vinyl has a restriction of size, they cannot make a size larger than I believe little lesser than 2 feet by 4 feet whereas tiles are now being produced on a normal basis which is 3 feet by 5 feet and on a very large basis 6 feet by 10 feet so that is an issue. Apple-to-apple per square meter the cheapest vinyl which is really pathetic quality vinyl coming in from China and there is the other not the Welspun tiles is between Rs.80 to 120 a square feet whereas Welspun is closer to Rs.150 rupees a square feet. Tiles apple-to-apple comparison is between Rs.30 to 40 a square feet so there is absolutely no comparison. The designs, the textures, the finishes, the top surface and all of that is greatly superior in tile they cannot replicate so many of the natural stones and natural fabrics, natural woods which tiles can do so it is not a substitute in fact I would think that we are going to be seeing tiles taking over a larger part of most of the flooring material and very soon even the wall paneling material in the coming days so no threat at all.

Keshav Garg: Great Sir so that was really reassuring and Sir also wanted to understand so the faucet and the other non-tile business that we have started is there any product line which is making losses basically at operating level?

Abhishek Somany: None at all, if you have asked a pointed question the geyser is the latest introduction but the losses there are so insignificant that it is not worthy for mentioning. The losses in geysers on annualized basis will be about to Rs.30-40 lakh if at all so it is significant and that also should start improving next year.

Keshav Garg: Great Sir. Thank you very much.

Moderator: Thank you Sir. We take the next question from the line of Jyoti Gupta from Nirmal Bang. Please go ahead.

Jyoti Gupta: Good afternoon Sir. I have two questions one question is we have a huge dealer network of 3200 is there per dealer productivity which we could look at because compared to Kajaria which is got 1800 odd we are almost double in terms of the dealer network and I was expecting a very good tile performance number but we did not see that so this net addition of dealer how are we seeing that in terms of improvement in terms of the sales and distribution in the Tier-2, Tier-3, Tier-4 cities one is that and second is usually the tiles come to the fag end of the construction and while if you have had good numbers from the construction side and hopeful that since tiles also require, do I see Q4 numbers performing better than the third or will both the quarters be better at far because again we will have a single digit number in the third quarter as well just wanted to understand your point of view on that?

Abhishek Somany: So the first one yes there is a historic reason why there are lesser number of dealers but much larger dealers in terms of number of Crores which each dealer does that is what your question was between Kajaria and us and they have been sales tax exempted until 2014 so they historically had very, very large dealers unlike ours but if you look at the total count of the footprint at the ground level their dealers and their sub dealers which is retailers are 3 to 4000 maybe a little more than us. We have 3200 dealers but approximately 10 to 12000 touch points, they have about 2400 dealers but they have approximately 15000 touch points so their touch points are much, much larger than us but the historic reason does have an effect on the number of dealers and the efficiency but that will start correcting out because they are also now aggressively making more and more dealers and the bigger dealers percentage is coming down. The second question is that yes Q4 is a far better number than Q3 and you are largely right although we are hoping that Q3 would be slightly better than our Q2 but Q4 will be batting the maximum as far as the growth is concerned this year that will also be coupled with our max plant whatever it gives us that will be an extra amount which will come to us in Q4 so all in all Q4 you are largely correct will be far better than Q3. I hope I answered both your questions.

Jyoti Gupta: So do you expect a double digit growth more in FY in the Q4 and maybe a single digit in Q3 because I personally feel that since you have financial year construction closing activities therefore tiles should be posting a very good number and second quarter while I was not really expecting this number because of high moisture anyways tiling does not work that well so third and fourth should be good but then I do not know the confidence in terms of performance seems to be lukewarm again in terms of tiles?

Abhishek Somany: The large part of it is exported whatever growth you see is exported otherwise tiles I think we should be looking at much better growth Q4, 123 for next year and there on. Clearly tiles has been muted as far as demand is concerned in the current scenario so it is under pressure the only saving grace is that our capacity utilizations have gone up, margins we should be able to maintain and please do not also forget that we have added 25% capacity so the utilization which we are talking is on that capacity therefore we showed poor margins and poor utilization in first quarter if that starts improving at least one piece the balance sheet and the margin should start getting better and improved or sustained. Now growth will kick in. I am not worried about the growth in the medium and the long term, in the short term you are very, very correct there is pressure and the reason to say that I said that earlier in the call in the next 10 years we are looking at about 150 to 170 million people getting urbanized all will need homes and tiles is the preferred material today so I am really not worried on the medium and long term.

Jyoti Gupta: A very Happy Diwali to you Sir. Thank you so much.

Moderator: We take the next question from the line of Mr. Rahul Agarwal from Incred Capital. Please go ahead Sir.

Rahul Agarwal: Hi good afternoon. Thank you so much for the opportunity. Abhishek I had a question on all the new businesses and these are all which you are incubating right now so bathware this is in the Nepal joint venture as well as large slabs if you could help me understand the next three year plan, largely in terms of how you want to build those businesses and I also assume that these businesses have higher margins than what we do right now in terms of the entire existing scale what we have and they also have better payback periods so just wanted to understand how does this business increase in terms of revenue share, how does the Somany look like in three years out?

Abhishek Somany: Sure so number one the max plant that is a tile plant now the payback will largely depend on how much of value added I will be able to make out of the max plant, so if I make very quickly scale up the value added segment then the max plant can pay back between three, three-and-a-half years if I do not then it will be maybe closer to five, five-and-a-half years so if it is five, five-and-a-half it is a long payback but it is a question of putting it versus not putting it you have got to have this capacity so it was one of those things where the responsible brand needs to put in that investment and be ready for the future so that max plant if we scale up capacities fairly quickly we have enough land there to put up another max line in that location which will come at a much, much lesser cost than what it is today so that is number one so that is the trajectory that we have to first utilize the max plant at 100% capacity. Let us say we do not make 100% value addition but whatever we want we want to keep running the plant. The second one would be to start substituting and removing the non-value added from the max plant and keeping on beefing up the value added segment to get my payback much easier so as far as the next 18 to 24 months would be concentrating on the big slabs, 4 million square meters of big slabs easier said than done. The same 4 million square meters as far as wall tile is concerned or my normal 2 feet by 4 feet vitrified tile is concerned would have been consumed within 12 months so this is going to be a tough one as far as value added is concerned so that is the 24 month outlook for the max plant and once we do that we would want to double that plant in the same location. As far as the new businesses is concerned sanitary ware we are changing the value mix in the plant and the idea is to scale up sanitary ware in that plant with a better value added mix in which case we would be ready in the next 12 months to put another sanitary ware line so in the next two to three years you would expect that we would be doing some investment in the sanitary ware segment to scale up that capacity by at least 50% of what it is today. As far as bath fitting is concerned we have already made a reasonable amount of investment and we are in a position where in the next 24 months we should be able to double the revenue as far as bath fittings is concerned and we have made an investment. There may be balancing equipment required while we chug along for making quality better and also for enhancing the product mix again over there that is as far as the bath ware is concerned, so these are the three primary businesses as of now which is where the outlook is, so to answer your question in another way tiles we do not see any requirement of any expansion in the next 24 months however in sanitary ware we do believe that there would be an expansion need in the next 12 to 18 months from today, bath fittings again we do not need any expansion in a very large way, small balancing equipment will be required.

Rahul Agarwal: Anything on adhesives?

Abhishek Somany: Adhesives is something which is from the plant so that is something which is kind of a byproduct as far as we are concerned. We are using our tiles to make the adhesive so that will keep improving as and when the tiles keep getting used because a lot of players have also got into business.

Rahul Agarwal: My question is apart from increasing manufacturing utilizations which can increase your EBITDA margins further this 9.8% the most of the energy cost benefit is largely done with for H2?

Abhishek Somany: Well energy cost benefits it is to do with price of energy and also capacity utilization so it goes hand in that so the three levers for EBITDA margin increase other than energy cost because that is something which is not under our control but the other two levers are capacity utilization and product mix in favor of value added products.

Rahul Agarwal: Yes I am pretty clear on that what I was asking was the energy benefit is largely done with because we are seeing some increase in pricing anyway right?

Abhishek Somany: I do not remember last year same time what was the energy cost. Yes so last year Q3, so I am not too sure of the Q3 energy cost but I think if you compare it to last year Q3 we still are at a much better position than last year Q3 but there are pressures on energy owning to winter until February March prices may go up another Rs.2 to 4 a standard cubic meter and then they will start softening.

Rahul Agarwal: Perfect got it. Have a very good festive season. Thank you so much for answering my question.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Hi Sir thanks for the opportunity again. Sir I just wanted to delve into the energy cost would it be possible for you to explain what is the thought process to actually optimize the cost, there are various variables available right basically you have bio gas, you have coal, you have spot, you have LPG, so what is your thought process and will it be possible for you to give some sense on how our mixes or how does it evolve in the past?

Abhishek Somany: So in Morbi we have gone on our head with GSPC so we have three options there as far as our kilns is concerned so let us break it up into two segments let us break it up into the firing kilns and then let us break it up into the spray dryers, in the kilns there is no option but to use any gaseous fuel which is LPG, propane, natural gas. At one time there was coal but that is history so right now in a kiln we can only use natural gas, LPG or propane. Currently in Morbi with the propane and LPG taxation which has gone up is all almost at par with natural gas which means we have only two sources GSPC or then one of the suppliers of LPG propane which could be HPCL, BPCL, etc. We do not have access to any spot. We do not have access to any IGX exchange gas, so GSPC does not allow that. PNGRB has not come up with any transportation tariffs so therefore we are only restricted to buy from GSPC that is as far as the west is concerned. All our west plants are in the same boat and all of Morbi is in the same boat. Now in Morbi the spray dryers can still run on coal/bio gas so they are using either or depending on what is cheaper in a seasonal way. Now let us move to the north in the north we have access to Gail gas and we also have access which Gail every now and then gives us cheaper gas which is from the exchange so that is something which we do not go to the exchange but Gail is able to offer us at every given time every quarter, quarter-on-quarter that price fluctuates. They are able to give us some cheaper gas but we do not have access to Henry Hub or JCC so I cannot go and contract Henry Hub and JCC, they may be giving us the same gas but I am liable to take only from Gail in a larger sense. I do have a little bit of gas which we buy from IGX. Last year we did that so we do have access to IGX in the north because the PNGRB has clear tariff which has been defined here and again in the north let us break up the spray dryer, spray dryer after the NGT order in the north all our spray dryers are now on bio gas coming to south, south we do not have access to any gas other than spot currently which we are buying from IOC or a city gas distributor whichever is cheaper currently and the spray dryers in the south again are running on coal or biogas depending on what is cheaper in which city this is the breakup.

Ritesh Shah: This is very, very useful I really appreciate it and Sir is there any policy framework to optimize the cost or we decide that weekly fortnightly bases based on the demand projections how should we understand that?

Abhishek Somany: Which cost?

Ritesh Shah: Sir basically whether you will go for coal or bio gas or say you indicated Gail?

Abhishek Somany: Ballpark if gas is Rs.2, 3 more expensive so let us say if it is within 10% more expensive I would rather use gas it is a cleaner more efficient fuel and also it gives me slightly better quality. If any of those coal/biogas if I have an option then I would in the kiln we do not have an option we go for gas but in the spray dryer we flip-flop between any of the three depending on what the prices are so the policy is very clear not to be pennywise pound foolish to buy the cheapest fuel and disregard quality and disregard life of the equipment so 10% is kind of the ballpark after which we need to make choices.

Ritesh Shah: Sure this is very, very helpful. Thank you so much I appreciate it. Thank you.

Moderator: Thank you. Ladies and gentlemen we take the last question for the day from the line of Aasim from DAM Capital. Please go ahead Sir.

Aasim: Hi good afternoon. Just wanted clarity on how the three elements within working capital will move from here on receivables I think you always said there is scope for improvement but maybe a fresh sense on all the three line items over here?

Sailesh Kedawat: I think our receivables today are at optimum level in fact if we give a little leeway right we can always do a little bit more sales but we are very tight on the savings and I think that is the first point which was mentioned on the balance sheet strengthening so receivables I think we are optimum level it is not going to go down from maybe one or two days it can still increase so are we at an optimum level. As far as inventory we are at 56 days today I think this is slightly higher we are trying to reduce it. I think Q4 is where this should come down another two days or so, creditors once again we are at optimum level, we are paying everything on due date so there is no leeway there, everything is paid on due date so whatever you are seeing stable dates will remain constant.

Aasim: The sharp rise that you have seen as of H1 that would continue to persist or would that at least come off?

Sailesh Kedawat: I explained that in the beginning so your benefit I once again explain it very, very briefly so there is no change in payment term for creditors, earlier till last year creditors were using our bank lines for getting their bills discounted and getting early payment that facility we have discontinued now so the payable days what we are seeing today is the correct payable days, all those creditors who wants to get an early payment today there is a different payer arrangement which is done which is at their cost so they use the payer arrangement to get the bills discounted.

Aasim: Fine basically it will persist. The second and last question basically was on the bath ware business I do not know if you guys have ever mentioned it but what is the EBITDA margin of this business currently and if you have any goals of where that can settle on the future?

Abhishek Somany: So both of them blended is slightly better than tiles and that would only get better as and when that scales up.

Aasim: Thanks and Happy Diwali to all of you.

Moderator: Thank you very much that was our last question in the queue. As there are no further questions I would now like to hand the conference over to Mr. Somany for closing remarks.

Abhishek Somany: Thank you everyone. Wish you a very, very happy Diwali and looking forward to the earning call in Q3. Thank you.

Moderator: Thank you very much. On behalf of SKP Securities limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.