16th August, 2023

The General Manager,
Corporate Relationship Dept., BSE Ltd.
1st Floor, New Trading Ring, Rotunda Building,
P. J. Towers, Dalal Street, Fort,
Mumbai-400 001
Scrip Code: 531548

The Secretary,
National Stock Exchange of India Ltd.
Exchange Plaza, 5th Floor,
Bandra Kurla Complex,
Bandra (East), Mumbai 400 051
Symbol: SOMANYCERA

Dear Sir/Madam,

Sub: Transcript of the Earnings call for Q1 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 7th August, 2023 & 11th August, 2023 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Transcript of the Earnings Conference Call held on 11th August, 2023 is enclosed herewith.

You are requested to kindly take the same on record and acknowledge the receipt.

Thanking you,

Yours faithfully,

For Somany Ceramics Limited

Ambrish Julka
Digitally signed by Ambrish Julka
Date: 2023.08.16 15:53:40 +05'30'

Ambrish Julka
Sr. GM (Legal) and Company Secretary
M. No.: F4484

Encl: As above

"Somany Ceramics Limited
Q1 FY '24 Earnings Conference Call"
August 11, 2023

MANAGEMENT:	**MR. ABHISHEK SOMANY – MANAGING DIRECTOR & CEO – SOMANY CERAMICS LIMITED** **MR. KUMAR SUNIT – HEAD-STRATEGY & INVESTOR RELATIONS – SOMANY CERAMICS LIMITED** **MR. SAILESH KEDAWAT – CHIEF FINANCIAL OFFICER – SOMANY CERAMICS LIMITED**
MODERATOR:	**MR. KARAN BHATELIA – ASIAN MARKETS SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Somany Ceramics Limited Q1 FY '24 Earnings Conference Call hosted by Asian Markets Securities Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectation of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. Actual results may differ from such expectations, projections, etcetera, whether expressed or implied. Participants are requested to exercise caution while referring to such statements and remarks.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Karan Bhatelia from Asian Markets Securities Limited. Thank you, and over to you, sir.

Karan Bhatelia: Thank you, Carol. Very good afternoon, everyone. On behalf of Asian Markets Securities, I welcome you all to the Somany Ceramics 1Q FY '24 Results Conference Call. We have the senior management team with us to take us through the results and then for a question-and-answer.

With that, I'll hand over the call to Mr. Abhishek Somany for his opening the remarks. Over to you. Thank you.

Abhishek Somany: Ladies and gentlemen, this is Abhishek here. I'm assisted with Sailesh, our CFO, and Sunit to give you a feedback on an overview of the first quarter. The first quarter, there has been pressure in the market. And therefore, our capacity has been utilized in a very low way. To be precise, there's been a 70% capacity utilization as far as tiles are concerned, which clearly shows up in the working.

As you know that in the tile industry, the biggest lever is capacity utilization. Silver lining is that from 1st July, we are almost at 100% capacity utilization. So things are looking much, much, much better. Anyway, so for the last quarter, that impacted the sales as well as the margins. As far as sales is concerned, we grew by 8% and we were looking at a double-digit growth, as mentioned earlier. We are still slating that we would be looking at a double-digit growth for the year.

This quarter, which is Q1, has had some other pluses, which is the gas pricing has stabilized between April and June. Currently, our gas pricing is looking between mid-40s to early 40s, depending on the region, coming off from the mid-50s to the early 50s. So that has been a reduction in the gas pricing, which is where you're seeing the EBITDA margin 60 bps, which is up. However, if the capacity utilization would have been 10% to 15% better, which is what we were envisaging, this EBITDA margin would be much better. Therefore, you can look for it, for this quarter, we should be looking at a much better quarter.

As far as Sanitaryware is concerned, Sanitaryware -- they did not grow in the quarter, but Bath Fittings grew by approximately 20%. So an overall growth of 8% in the Sanitaryware. This is something, again, which has picked up in the second quarter.

As far as our advertising is concerned, we were in line. We did about 2.5% to 2.6% of revenue in the advertising. We had taken up the IPL, and we sponsored one of the teams -- rather co-sponsored one of the teams.

As far as our balance sheet is concerned, we have been focused on overall working capital management. And therefore, the balance sheet is absolutely under check. We -- our debtor days have come off 2 days from 40 days to 38 days, and our inventories were also down by a day, but that's largely on the backdrop of using lesser capacity. So there has been lesser capacity utilization. Coupled with that, we had some certain routine maintenances. So overall, these capacities are back on stream, and we are up to a large -- a much better quarter.

The other thing which has been noteworthy in the quarter, in fact, which is one of the result is, again, the line balancing what we have done is Somany Fine, which was making soluble salt products for us. Soluble salt product is part of the PVT portfolio and -- so PVT has double charge, twin charge and soluble salt.

Soluble salt, that plant was producing about 4.5 lakh, up to 5 lakh square meters. Our current demand for soluble salt is slightly lesser because this particular material has gone only into projects. So we need about 3 lakh, 3.5 lakh square meters. And it was a chicken and egg. The plant was not running at 100% capacity, therefore, not being able to give the pricing. We thought it prudent to sell the plant and buy the soluble salt from elsewhere, which has already been tied up.

This plant has been shut for the last 3, 4 months, and we've been -- we've had 0 sales loss because we are buying the soluble salts from other parties who are running the plant 100% and selling to various different suppliers. So that is what has been a prudent move on our part to exit the JV, but rest assured, there will be zero impact on the material availability. There's more than enough material available, as we speak, of soluble salt.

As far as our showrooms are concerned and network expansion is concerned, we expanded the dealers in the first quarter. We were at 50-plus dealer net additions, and we did about 25 showrooms net addition.

So this has been the overall overview of the last quarter. I'm happy to take questions now. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Keshav Lahoti from HDFC Securities.

Keshav Lahoti: So my question is, how is the demand shaping up in Q2 and when you expect the demand revival?

Abhishek Somany: Q2 is much better than Q1. July was also better than the average of the 3 months in Q1. I think the demand finally will look up completely post Diwali. But for us, we should have a much better quarter in Q2 itself than compared to Q1.

Keshav Lahoti: Can you give the fuel price breakup region-wise for Q1 FY '24 and current prices?

Abhishek Somany: Q1 FY '24 was INR46 as far as the northern plant is concerned, INR43 as far as the western plants are concerned and INR57 as far as the southern plant is concerned. Current pricing, as we speak, this month -- obviously, every month, it's been going down little by little. I gave you the average of the Q1. Current prices, the northern plant is looking at INR41, the eastern plants are looking at INR40 and the southern plant is looking at INR50. These are all figures of standard cubic meters.

Keshav Lahoti: Okay. Got it. Lastly, what is the update on the capex? Is it running on track? And what sort of capex we should expect for FY '24 and '25?

Abhishek Somany: FY '24 and '25, the only capex which is pending is our large format tiles, which we'll start production sometime in Q3 -- early Q3.

Keshav Lahoti: No further plan as of now for future?

Abhishek Somany: No further plan. With this plan -- with this plant starting, the addition in capacity in the last 24 months would be approximately 25%. So a lot of work to do on sales.

Moderator: The next question is from the line of Jenish Karia from Antique Stock Broking.

Jenish Karia: Sir, if you can please highlight on the gross margin contraction, excluding the power and fuel cost, both on Y-o-Y and sequential basis?

Abhishek Somany: I would let Sunit or Sailesh to take that question.

Sailesh Kedawat: So there is actually gross margin improvement this quarter, both Q-o-Q and Y-o-Y. If I had to talk of numbers, I think Q-o-Q, the gross margin expansion is 0.9%, and Y-o-Y, it is 1.2%.

Jenish Karia: Sir, if I exclude the other income and power and fuel cost, so it seems that there is a decline. So it has gone down from 54% in last quarter to 53% now.

Sailesh Kedawat: Power and fuel is a part of gross margin only. So you'll have to include that. And we have -- when I've given you the numbers, other income is not included in that. This is actual operating gross margin. Power and fuel is a part of our cost.

Jenish Karia: Okay. No problem. Sir, can you just help us with the product mix for the quarter, if possible?

Abhishek Somany: I'm sorry?

Jenish Karia: The product mix between ceramics, GVT, PVT?

Abhishek Somany: Yes. The product mix has improved in favor of GVT. If I look at FY -- Q1 FY '23 or even Q4 FY '23, we are up by 2%. So we are at 33%, 34% of GVT. PVT, obviously, has declined by 2% and ceramic has also declined by 1%. So overall, GVT has gone up by 3% to 4% and the other two have declined by 2% to 3%.

Moderator: The next question is from the line of Ritesh Shah from Investec.

Ritesh Shah: A couple of questions. Sir, you did indicate the regional gas prices for Q1 and you gave also spot. Sir, can you help with Q4 FY '23 prices and blended cost for Q4, Q1 and right now?

Abhishek Somany: Q4, cost was INR51 in North, INR50 in South -- sorry, INR50 in West and INR59 in South.

Ritesh Shah: And sir, on a blended basis, for Q4, Q1 and right now?

Abhishek Somany: I'll have to work that out, I don't have this back of my hand. But right now, I told you, it's INR41 in the North -- sorry, sorry, I have the blended, I'm sorry. INR45 was Q1 FY '24, INR61 was FY '20 -- Q1 FY '23 and INR50 was blended Q4 FY '23.

Ritesh Shah: Sir, can you please repeat? Sorry, I missed it.

Abhishek Somany: I'll give you last year Q1, INR61, this year -- last year Q4, INR50. This year Q1, INR45.

Ritesh Shah: And spot?

Abhishek Somany: There's no spot.

Ritesh Shah: Sir, you said INR41, INR40 and INR50. If one had to do a weighted average, how much would that come to indicatively, sir?

Kumar Sunit: Ritesh, so the INR41 is the blended at the current level, which is the current metrics, right? And the breakup amongst the geographical location is INR41 at a northern plant, INR40 at a western plant and INR50 at the south plant. So blended coming to INR41 at the current level as of now.

Ritesh Shah: That helps. Sir, so the second question is what sort of cost savings are we looking at if one just had to extrapolate this rupees per SCM into consumption norm based on our mix of GVT, PVT, ceramic on a rupees crores basis? And a follow-up to that would be, do we expect this cost savings to translate to higher margins? Or are we looking to pass on some discounts? How should we understand that?

Abhishek Somany: So the sales price really haven't declined in the first quarter. Whatever margin reduction you're seeing is purely because of lesser value-added being sold in the first quarter. So sales price is not under pressure to that extent. It's just been the market. We've passed on some discounts, but that's to use capacities, old material, etcetera, but not really under -- I can't point it out as a flag as the sales price is under pressure.

So going forward, you're seeing the 60 bps up, even though our capacity utilization was probably the lowest ever at 70%, which is back to 85% to 90% as we speak from 1st of July onwards. So you will see that coming also and this 60 bps is anyway coming as a cost advantage in terms of gas. So looking good for second quarter.

Ritesh Shah: Right. And sir, just a related question. How much would be propane and Gujarat gas pricing right now? What I'm trying to understand is the positioning of Morbi versus for us was to indicate INR40, are we above or below that? And does it mean anything for us?

Abhishek Somany: Morbi we have six plants, out of which four plants are running on propane, as we speak -- in fact, five plants are running on propane as we speak. And 1 plant is also getting the propane bullet. But as of today, the propane price, because the government increased the taxes on propane, was just a wee bit lower than natural gas. That is why we were running propane. But next month onwards, I think propane would be higher than natural gas is what is predicted, in which case, we will move to natural gas, which is at INR40.

But I don't remember the exact figure of propane, but I think propane is at about INR38, INR39, and natural gas is at INR40. There's a correction. There's only 4 plants which are running on propane, 2 are running on natural gas. So blended, we're still at that INR40. And I don't think that will change. It will be at that INR1 plus or minus.

Ritesh Shah: Sure. That was helpful. And just last one question I'll try to squeeze. Sir, other players are looking to set up facilities in Eastern India. How do we see that as a cluster emerging? Would we look at anything on Eastern India to cater to that particular market?

Abhishek Somany: Yes, I have only heard one player doing Eastern India, unless you have better information on that.

Ritesh Shah: Correct. Sir, so right now, it is one. What we are hearing is there could be incrementally more. So the question is, sir, any thoughts on that direction? A manufacturing base in Eastern India, does it make sense? Would we even look at it in that direction?

Moderator: Yes, sir, you're connected. You may please go ahead as we have Mr. Ritesh Shah still online.

Abhishek Somany: Ritesh, I know only of 1 player who is doing something in the East of India. I don't know anybody else is doing it.

Ritesh Shah: Correct. Sir, the question is, do you see merit in that particular move? And would we even look at setting up a manufacturing facility in Eastern India, factoring the sizing of the market?

Abhishek Somany: It has been on card at right now. Our next capacity which is coming up is Nepal, which will be sometime next year.

Moderator: The next question is from the line of Achal Lohade from JM Financial.

Achal Lohade: This is Achal from JM Financial. Sir, a few questions. One is, with respect to value-added mix, can you help us for 1Q FY '24, what is the number and similarly for 1Q FY '23?

Abhishek Somany: GVT should be up by another 2% to 3%. So it should be above 35%. It's currently at 33%.

Achal Lohade: Sorry, you're saying in 1Q FY '24, it is 33%, right?

Abhishek Somany: No. In FY '24, it was 32% -- just a shade under 32%, and it should be above 35% in FY -- sorry, Q4 '23 was around 31%, 32%, it should be above 35% in FY '24.

Achal Lohade: Right. But in the -- just recent comments, you mentioned the margin reduction is due to lesser value-added sold. So I'm just curious.

Abhishek Somany: No. Lesser value-added has got nothing to do with GVT. I'm talking about within GVT there are different sizes. So the higher sizes and the lower sizes, the lower sizes yield lesser -- marginally lesser. That is why we've not been -- when markets are under pressure, people buy only the vanilla item. So within GVT also, there is three different categories. The vanilla made the high. That's right.

Achal Lohade: Right. Is it possible to get a number like a competitor talks about mid-40s kind of a value-added tiles mix, which has higher margins. Is there any number we could quantify for us?

Abhishek Somany: Yes. So our -- we also have an internal number as to what we call as value added. I don't have the numbers exactly in front of me. But yes, that is exactly what I'm saying, which has been slightly lower. So for example, I'll give you an absolute example. So 80x160 inches is a particular kind of tile and 120x180 is another particular kind of tile. That has hold less than what we would have envisaged versus the 60x120 tile, which is sold more in place of the 80x160.

Achal Lohade: So basically, you're saying that there is an element of down-trading given the demand weakness, given the inflation and -- from a customer perspective. So it's got nothing to do with us in terms of the availability or production side of it, right?

Abhishek Somany: No, zero issue.

Achal Lohade: Understood. And could you remind -- sorry, I couldn't understand really very clearly. The reason for capacity utilization was the issue with the PVT and hence, we kind of discarded the capacity or got rid of the capacity and hence, the utilization were lower. What is that?

Abhishek Somany: No. Utilization was lower period in the quarter. We had a couple of scheduled maintenances, which was great. We were good that we did the maintenance then. But other than that, the market was slow, so we had to shut down a few other lines. So the overall capacity utilization was lower.

What I was mentioning was Somany Fine. Somany Fine particularly makes a specific product called soluble salt. Earlier, we were selling 6 lakh, 7 lakh square meters in the erstwhile days 4, 5 years ago when soluble salt had the fancy of the market. Then that dipped to 4, 4.5, 5 lakh square meters. We still were in good shape to run the plant. Six months ago, this particular product, as I said, started selling only 3.5 lakh square meters per month instead of the 4, 5 lakh square meters, which the plant could produce. Now because the plant was running at a lower capacity, it was not being able to give me the right pricing.

There were other players in the market who were making these vanilla items at a lower price. Therefore, we shut down the plant 4, 5 months ago. We tried our best to revive it and revive this market, but the market has stabilized at that 3.5 lakh square meters per month, more or less ballpark, which does not justify running the plant at 100% capacity. Therefore, we have sold the plant. The partner will probably make soluble salt, we will probably buy back material from him, that I don't know. But there has been no loss of sales in procuring soluble salt.

Why the partner will be able to do it, in case he chooses to make soluble salt later, the person who's bought this particular plant from us, is that he will be running at 100% and selling to not only me, to other people also. That makes all the difference. In our own plants, we don't sell to anybody because that creates further confusion. So in our own plants, all our JVs are 100% dedicated to Somany.

Achal Lohade: Understood. Okay. The next question I had, if you look at the South gas pricing, it's -- in fourth quarter also it was INR60. I think, 1Q, you said INR67. Have I got the number right?

Abhishek Somany: Yes. It was INR59 actually, not INR67, but INR59. INR60, let's say. South was INR60, it's currently at INR50.

Achal Lohade: Currently at INR50, which is still a good 25% higher than what is there in the western pocket, which is more...

Abhishek Somany: Absolutely.

Achal Lohade: So how do we compete? Is that the freight cost takes care of that? Or we are at a -- what kind of disadvantage in terms of percentage of selling price?

Abhishek Somany: Yes. So the freight advantage is kind of nullified because the gas price is far more expensive. And this is, I think, a confusion between a local gas supplier there versus IOC. So unfortunately, we work in India and it's the governments -- two different government departments fighting with each other is why we're getting a spot price. So gas is available at INR40 over there, but PNGRB has not given any mandate to IOC to supply to us.

So it's a confusion between the government departments. And for that, all consumers are facing the brunt. But this would also finally settle because the spot rates are going down worldwide. So this is also finally settled over time. It is just taking a longer time.

Achal Lohade: Right. Sir, if you don't mind, can you help us in terms of -- you've given the unit-wise costs or the region-wise costs. But if I were to ask you, in terms of RasGas, propane and this spot gas, what would that mix be for our company at consol level, including...

Abhishek Somany: We buy spot only in South, nowhere else. And everywhere else -- in the West, we can only and only buy from GSPCL. There is no third supplier there. There are no -- rather no second supplier. So in West, it is GSPCL. In the North, we are buying some GAIL, but we are also trading on the IGX.

Achal Lohade: Okay. Sorry, I'm still a little lost.

Abhishek Somany: In the South, we are buying only spot. We don't have an option. In the West, we are only buying from GSPCL, we don't have an option. In the North, we have an option of buying from GAIL, and we are buying from IGX on the exchange.

Achal Lohade: So RasGas is GAIL and IGX is spot, right? Have I understood right?

Abhishek Somany: IGX is not spot. IGX is a blend. I don't know what that blend is.

Achal Lohade: Okay. And what tenure of these contracts are on the IGX? Is that like...

Abhishek Somany: On GSPCL, it's generally a 3-month contract. In the South, it's an open contract. In the North, the GAIL contract is our 25-year contract, which will get over in '28, and the IGX is a spot trade.

Achal Lohade: Got it. Got it. This is very helpful. And...

Abhishek Somany: When I say spot trading, please don't misunderstand, it's not spot gas, it's spot trading.

Achal Lohade: Right, right. You said it's a blend, basically. So...

Abhishek Somany: Yes. I don't know what the blend is.

Moderator: The next question is from the line of Akshay from Canara Robeco Mutual Fund.

Akshay: Just one question, sir. You did mention that the demand to pick up post Diwali. So what is it? Is it just a hope statement? Or are you seeing some increase in the inquiries from the real estate developers or something? So just on this demand, if you can comment.

Abhishek Somany: Real estate developers, we supply very little to. About 6%, 7% of our revenue goes to real estate. So a large part of our business is government and retail, mostly retail. And we have seen a better July, although the entire country has been rained out. North is one of our largest markets and North has also been rained out in Himachal and in Uttarakhand, etcetera.

Even then, we've seen a better July overall for the company. North, the kind of rain which we've had, obviously, that uptake will happen in August. So overall, even though there's been a complete fallout in the backdrop of rain, we have had a better July compared to the last 3 months of April, May, June.

Moderator: The next question is from the line of Amit Purohit from Elara Capital.

Amit Purohit: Sir, just on the demand side, you indicated softness. So would it be largely both project and retail? Or is it largely to do with retail?

Abhishek Somany: So demand side is both project and retail. We have projects, which obviously become slower in the rainy seasons. And also in June, you have extreme heat, labor goes back in their -- to their villages. So overall, demand has been slow. Inflationary pressure plus the labor pressure, which are normal, but overall, the demand has been slow in the first quarter.

But having said that, we still grew by 8% by volume. So it's slow, but it's relatively speaking. The problem is that we've put in so much extra capacity in the last 24 months, that capacity lay idle and therefore, we had a margin pressure. And that should get corrected the minute we start using capacity in a larger fashion. So I'm not worried at all. In fact, I'm very optimistic on that.

Amit Purohit: Sure. And sir, just on the -- if you could help us in knowing this city-wise kind of Tier 1 or Tier 3, 4, where there was a more slowdown that you witnessed or in terms of your overall volume growth, say, about 8%, which is the markets where it has grown below 8%, where it has done above 8%?

Abhishek Somany: South has been slower. It's slower than 8%, specifically Kerala and one or two other areas has been slower. Telangana has been very good, North has been decent up till mid-June before the rains came. So overall, I wouldn't be able to give you exact figures, but our Tier 1, Tier 2, Tier 3 or ABCD towns really hasn't changed on an overall level by such a significant mark which I would need to mention. So I think it's still in the same range of 75%-25% between the Tier 1 and the Tier 2, 3, 4, in favor of the Tier 2, 3, 4, 75% is 2, 3, 4.

Amit Purohit: And there is no significant difference between the growth trends in these two segments?

Abhishek Somany: No. The Tier 2, Tier 3, Tier 4 continue to grow faster than Tier 1. But that's also because the Tier 1 is a builder market, and we are not very, very penetrated in the builders. We're more focused on retail, that's why. But otherwise, Tier 1 is also very large, which is where Morbi guys are supplying to the small and the medium-sized builders, even the large builders for that matter.

Amit Purohit: And then what this project includes for us?

Abhishek Somany: Project includes only -- so we are categorized in three ways, retail which export is part of the retail, then government and then private projects. So when I'm talking about private projects, it means only private real estate developers.

Amit Purohit: Okay. For us, what would be project? Predominantly government projects or would it be private builders?

Abhishek Somany: I have that break up: 75% to 80% is retail, 12% is government, 7% is private builders, 2% is export and about 1% is the corporates. Corporates, I mean the organized retails, the Maruthis, the ZARAs, etcetera, of the world.

Moderator: The next question is from the line of Yashowardhan Agarwal from Arthya Wealth.

Yashowardhan Agarwal: Sir, my question is on the COGS. Sir, if you look out -- if you are including power cost in the COGS, then we can see a 2% improvement in our gross profit margins. But power and fuel costs on expense has corrected a lot. So sir, I want to note that what are the other factors which are driving down our gross profit margins?

Abhishek Somany: I'm sorry. When you say power and fuel cost is corrected a lot, what is that loss correction? I mean are you comparing with what?

Yashowardhan Agarwal: Hello?

Abhishek Somany: When you're saying power and fuel cost is corrected a lot, what is that comparison? What are you comparing with? Because power and fuel cost, if you see on the numbers, right, this is on production. Our production is later this quarter. Production in the previous quarter was more. So when comparing, please map it up with the production because the numbers which you're seeing is based on the production and not based on sales.

I'll repeat the numbers for your reference. If I have to talk on Q-o-Q, right, inclusive of power and fuel cost, right, we have improved our margins by 1.2%. And if I talk of Y-o-Y, the margins have improved 0.9%, right? And then you can do that calculation, power and fuel cost as a part of it.

Yashowardhan Agarwal: Okay, sir. My other questions have been answered.

Moderator: The next question is from the line of Pradeep, an individual investor.

Pradeep: Sir, I just wanted to know about this antidumping duty dynamic. So currently, as you are aware, recently, this DCC nation has lifted the antidumping duty on India. And then the EU has started to levy antidumping duty on exports from India around, say, 7% to 8%. So what is the impact on that? And have they also done any action on China? And then what is the current position of U.S. antidumping duty on China? So just some more color on the antidumping duties.

Abhishek Somany: So there's no antidumping in the U.S. for Indian products. There is an antidumping in the U.S. for Chinese products. That is why Morbi's single largest export country today is the U.S. As far as Europe is concerned, China has a higher antidumping duty in Europe and India has a very, very low antidumping duty of 6% to 7%. So it's really not mattering. In fact, Turkey, which is the other competition to India, also has a much higher antidumping duty in Europe from Turkey.

So these were -- that was the latest antidumping duty which was levied on India, but it was insignificant. As far as UAE is concerned, antidumping duty has gone, and we are also hoping that in the other Middle Eastern countries, this would be either lowered or would go.

Pradeep: Okay. Sir, any -- like now -- as of now, the EU has levied some 6% to 7% duty on India. Anything on China also or it is only on India and Turkey?

Abhishek Somany: No. Like I said, China has a much larger antidumping duty in the EU than China -- than India. India is clearly in the -- in an advantageous position.

Moderator: The next question is from the line of Rishikesh Bhagat from Kotak Mutual Fund.

Rishikesh Bhagat: Sir, my question is, first of all, congratulations on the great job done on the working capital front. Now, clearly, it's much leaner -- balance sheet is much leaner compared to past. So the question here is this has been done, obviously, in the challenging demand environment. So in case, as you highlighted, if the sentiment has improved, can we further improve? Or do you think we will require further any investment on the working capital front?

Abhishek Somany: I think we are in good shape as far as the debtors are concerned. On the inventory, I think there is work to be done. We should be able to -- if demand picks up, we should be able to shave off a couple of days on the inventory front.

Rishikesh Bhagat: Okay. And then incrementally from here on, if I look at it beyond Nepal, there is not much capex. So the cash generation will be fairly significant. So how should we look at incremental capital allocation from here on? Because Nepal, I don't see more than INR40 crores, INR50 crores incremental investment from your end.

Abhishek Somany: That's correct. So therefore, there is not going to be a very significant expansion because the next expansion would probably a sanitaryware expansion, which would be nowhere as expensive as a tile expansion. So that would be there, but that also will be there only in FY '25, maybe '26, so spread into '26. So 2 years from today -- 1.5 years from today.

So other than that, whatever cash we generate -- I think next year, when we generate the cash, we'll probably let you know and think as to how we would want to deploy the cash. Obviously, it would be in the lines of prudent capital management. There are only 3, 4 choices. Either to expand or to buy back or to reward shareholders, we don't know. We're waiting to see what is the kind of cash balance we would have.

Moderator: The next question is from the line of Udit Gajiwala from Yes Securities.

Udit Gajiwala: Yes. I had just one follow-up on the margin end. When you say there will be 60 bps improvement from the savings in the gas cost, where do you see your full year for '24 panning out on the margin front?

Abhishek Somany: I think the way the gas price is going, if it stabilizes here, maybe a little more should come out of the gas pricing. Other than that, all the other margin expansion, which we're expecting, we definitely are expecting it out of capacity utilization and our value-added sales. So both of them, we had guided for close to a double digit. So anywhere between 9.5% to 10.5% margin is what we had guided in the beginning of the year. We still want to stand by that.

Moderator: The next question is from the line of Jenish Karia from Antique Stock Broking.

Jenish Karia: I would like to continue on my gross margin question. If I look at our per square meter margins on the production volumes, so your power and fuel cost has reduced on a sequential basis by 3 percentage from INR114 in last quarter per square meter to INR110 currently. However, your other raw material cost has increased by 11 percentage from INR230 per square meter in last quarter to INR255. I just want to understand why is the other raw material cost increasing?

Sailesh Kedawat: So two factors to understand here. One is there is a decline in the power cost, which is purely on account of reduction in power, right? There's a reduction in the fuel cost, it has reduced. As far as other raw material costs improved, there is an increase in other raw material cost, but these are adjusted to production, right? Our production is lesser this quarter. We have utilized lesser capacity.

Jenish Karia: Yes. I'm talking about per square meter basis, sir, that's on production volumes.

Sailesh Kedawat: On which number you are referring to? If you can just refer.

Jenish Karia: Yes. Sir, last quarter, we had approximately INR311 crores of raw material consumed and changes in inventory and purchase of stock material and production volumes of approximately 13.5 million square meter. So that gives me a...

Kumar Sunit: Jinesh, Sunit here. So basically, if you talk on sequential basis, Q4, we had power and fuel cost per square meter was INR114, which has come down to INR110 this quarter. And that was finally in aggregate reduction in gas price wherein it was reduced by almost INR5 from INR50 blended average for Q4 to INR45 in Q1, right? So that's primarily on account of that.

Now if you talk about the higher operating costs, that was already clarified earlier, and that was primarily because of the lower capacity utilization, which we had during the current quarter. Once you talk about the material cost, the metal cost consumption cost say per square meter is almost flattish. It was INR114 in Q4 versus INR115 in Q1.

Jenish Karia: Okay. Maybe I'm missing something. I'll rework and connect with you may be offline.

Kumar Sunit: Yes. You may please refer the volume number given in our Investor Day presentation, right? And then you can just simply divide the absolute number of the consumption given and then you will get the numbers. If still you have, you can connect offline.

Jenish Karia: And just one last thing. What is our aspiration maybe 3 or 4 years down the line for Bathware segment? Where do we see the margins and revenue profile for that segment given the competitive intensity from the pipe players also increasing in the space? And that would be my last question.

Abhishek Somany: So Bathware, we are looking at INR300-plus crores revenue this year, and that runs at a good 3% to 4% higher EBITDA than the tile business and the minute -- the more and more that grows, the more and more the EBITDA would grow closer to the 14%, 15%. So that's the vision in the next 5 years -- sorry, next 3 to 5 years, we're looking at INR500-plus crores revenue from the Bathware segment.

Moderator: The next question is from the line of Achal Lohade from JM Financial.

Achal Lohade: Sorry, if you could remind us what is the blended cost for 1Q FY '23, 4Q FY '23 and 1Q FY '24? I'm just trying to clarify.

Abhishek Somany: Blended cost for what Achal, clarify please?

Achal Lohade: For gas, sorry.

Abhishek Somany: I'll take you through slowly, okay? The blended cost in last year Q4 was INR50, last year Q1 was INR61 and this year Q1 is INR45. And currently, as we speak, in August, it is INR41.

Achal Lohade: Perfect. So basically, while the blended cost did decline by about 5% Q-o-Q, the actual has not declined as much, but that's okay. The second question I had was with respect to the capacity addition. Now you mentioned that your capacity has gone up by about 25%, what...

Abhishek Somany: Will go up after the new plant start approximately.

Achal Lohade: Right. So what I'm trying to understand, on one hand, we have a significant exports playing out. On the other hand, there is also capacity addition, but I wanted to check your perspective on how Morbi is using capacity. Have you seen Morbi adding more capacity? Or that is slowed down in terms of new capacity additions?

Abhishek Somany: Sure. Yes, let me answer that. So if you see the maximum capacity addition happened between FY '21-'22 and '22-'23, right, last 2 years. So that capacity was basically put in by Morbi in a very big way. Considering the industry leader and us are in terms -- in volume, we may be very large as single players, but we're very small in the entire universe. So we added capacity of about 18%, 19%, and we added capacity now by about 24%, 25% after the large format plant started.

Morbi also added a large capacity. This capacity Morbi added in '20 -- between '21, '22, '23 was predominantly for exports. Now what happened is when the capacity started coming in, which was just before the Ukraine war, so sometime in last Jan is when the capacity started kicking in, in Morbi, the freight rates started moving up very substantially and so did the gas rates. And the war only made it worse. So therefore, a lot of the exports got hit. A lot of the traders were waiting for this to go down and then to buy.

So the exports went down from whatever figure it was to about INR500 crores, INR600 crores per month in the whole of last year, especially in the beginning of last year. That started picking up to a good INR1,200 crores to INR1,300 crores towards the end of last year. And as we speak, we are looking at between INR1,700 cores to INR1,800 crores of exports, which is happening per month from Morbi. So you can see the swing from a down of INR600 crores, INR700 crores up to INR1,700 crores, INR1,800 crores a month. So a lot of that capacity which came up for export has started getting utilized for exactly what it was put for.

Coming to your other question, is there more capacity coming? There is no significant capacity coming. There are maybe 5 or 7 plants, 10 plants coming in. But that many plants are also shutting down in terms of lines shutting down. So it's kind of balancing out. So we don't see any significant capacity addition in this particular year other than -- you've seen industry leaders' plants start this month. Our plants will start early third quarter -- October, third quarter. And maybe 7, 8 plants of various natures would mushroom in this year. But no significant capacity addition if that is what you're asking. I hope I've been able to clarify.

Achal Lohade: But as a follow-up to that, is that if export is so strong and if Morbi players are making reasonably healthy margins, is there a risk? Because we have seen in the past whenever they have made substantial profits in any of the product category, they keep on adding capacity. So is there a change in the behavior this time around? Do you expect that?

Abhishek Somany: Yes. There's a change in behavior for a couple of reasons. There's a lot of capacity, which is still sitting unutilized. If you see, Morbi is still at 70% capacity utilization. A lot -- a large part of that capacity is in wall tiles, which is lying idle. The other reason is that there has been a significant price increase of land in Morbi, which means that it's becoming that much less viable for any capacity to come in.

Coupled with that, I think Morbi has also learned its lesson where the margins were not as much. So therefore, the payback of the plant, which was much, much faster, has become longer in terms of both the land prices plus the rupee dollar. They were buying capacity. All this capacity what you see or what you have witnessed in the last 3 years has come INR75 to a dollar and INR82 to a euro. Today, we're looking at INR85 to a dollar and INR92 to a euro. So this also is a good 15% to 20% plant becoming more expensive. And the rate of tiles have remained steady or have only gone down.

So coupled with that, obviously, all of these factors make it less viable for any capacity coming. I'm not saying that it's not viable, but it's less viable for somebody to put mindless capacity. That's what I'm getting at.

Achal Lohade: Yes. Sounds -- I mean this is very, very helpful, sir. And just one question with respect to the Sanitaryware -- Bathware business. We've seen kind of fairly sluggish growth, if you look at some -- like when we launched and what we have achieved till now. So in terms of the competitive intensity, has it gone up tremendously in Bathware, that's where you find it difficult to grow given the smaller base you are at? And is there a challenge in terms of the growth itself, in terms of demand side itself?

Abhishek Somany: No. I think the base is small, the demand is huge. I'm not seeing that. Last quarter, I think for South, for some reason, was very poor as far as the demand is concerned. North did very well. In fact, West also did decent, but South really let us down in for whatever reason.

As far as the competition is concerned, our competition, we're not seeing so much intense competition with the pipe players. They're struggling. A lot of the pipe players are struggling as far as Sanitaryware is concerned. It's not an easy product. And also, the distribution is not the same. For tiles, the distribution is the same.

So disagree on most of the points. I don't see a challenge as of now to grow in this segment. It's a question of how we play ourselves smarter and make ourselves better in terms of getting market share, especially in the South. So it's all on us and really not on the competition. I'm not seeing that issue.

So where we have not done well, it's better to acknowledge we've not done well rather than beat around the bush. So clearly, in the South, Sanitaryware has not done as well, and we are correcting that to see how we can sell more in the South.

Achal Lohade: Understood. Understood. And just a data question. Can you break it up, in terms of Bathware, how much is sanitary and faucet mix for this quarter and 1Q FY '23 as well?

Abhishek Somany: For last year, you mean?

Achal Lohade: Yes, for this quarter as well as last year same quarter?

Abhishek Somany: Okay. So FY '23 last year was -- Sanitaryware was 33% and we are at just about 33%, so no growth in Sanitaryware. Bath Fittings was around 20%. There we've done 26%, so about a 20% growth there.

Moderator: The next question is from the line of Karan Bhatelia from Asian Markets Securities.

Karan Bhatelia: While the top 2, 3 organized players have not taken a cut on the MRP for tiles, so even Morbi has not resorted to cut in MRP or how do you look at things now?

Abhishek Somany: So MRP is a function of the discounting where the dealer discounts the product on the MRP. So I'm not sure who you're referring to, but we haven't put -- we haven't taken any serious cuts on MRP. It's generally a function, if a product has become a vanilla item and sometimes you have not looked at the MRP so closely, those are corrections which we keep making. The last correction that we made was when we moved from excise to GST. That was a big correction which we made in MRP. But we haven't done any such correction on our MRP. So I'm really not sure whom you are referring to.

Karan Bhatelia: Right. So even at INR40 average fuel cost for the next couple of quarters, we'll be still not going with cuts in MRP?

Abhishek Somany: No. Like I said, MRP is not a function of pricing in the market. MRP is a function of when you are ex-factory and how far you're selling it. So it -- MRP includes ex-factory pricing, profit, insurance, freight, dealer margin, subdealer margin, etcetera, etcetera, and then we put an MRP. So typically, the MRP is in the industry, I'm not talking of Somany, but in the industry is about 30% to 50% of the ex-factory cost.

Karan Bhatelia: Okay. That was very helpful. And then Kumar, sir, if you can break up the capex for FY '24?

Abhishek Somany: You are asking me?

Karan Bhatelia: Capex break for this year.

Kumar Sunit: Karan, so capex break up for FY '24 will be only ongoing project, which is a slab plant, which is going on. And majority of cost is already done till now because now we are on the verge of converting the project and it will start from the early Q3. Other than that, we have just some maintenance capex, which used to be somewhere around INR40 crores, INR50 crores on a total blended level at a consol level.

Karan Bhatelia: Somewhere we are less than INR100 crores of outplay this year?

Kumar Sunit: Max. Yes.

Karan Bhatelia: Since there are no follow-ups, any closing remarks do you want to make?

Abhishek Somany: Thank you so much, ladies and gentlemen, for coming -- for attending our Q1 earnings call. We're looking forward to a much, much better quarter 2, and hope to see you very soon in the quarter 2 or H1 earnings call. Thank you so much for being with us.

Moderator: Thank you very much. On behalf of Asian Markets Securities Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.