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Department of Corporate Services, Bombay Stock Exchange Limited, Phiroze Jeebhoy Towers, Dalal Street, Mumbai – 400001	Listing Department, National Stock Exchange of India Ltd, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400051
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Dear Sir,

Sub: Transcripts of the Conference call.

We refer to above and hereby submit the transcripts of Q3 & 9M FY17 Earnings Conference Call, conducted on February, 14, 2017.

This is for your information and dissemination.

For Pokarna Limited


Vinay Paruchuru
Company Secretary



Pokarna Limited

Registered & Corporate Office: Surya Towers, 105, Sardar Patel Road, Secunderabad 500 003, Telangana, India.
Phone: +91 40 2789 6361/7722, 6626 6777, F: +91 40 2784 2121, E-mail: contact@pokarna.com, Web: www.pokarna.com

Factory Address: Unit 1: Survey No. 123, Toopranpet Village, Chautuppal Mandal, Nalgonda District – 508 252
Telangana, India, T: +91 8694 – 200666

Unit 2: Survey No. 563, 568, 574, Aliabad Village, Shameerpet Mandal, Ranga Reddy District – 500 078
Telangana, India, T: +91 98480 20242

CIN: L14102TG1991PLC013299

Pokarna Limited

Q3 & 9M FY17 Earnings Conference Call Transcript

February 14, 2017

Moderator: Ladies and gentlemen, good day and welcome to the Q3 & Nine Months FY17 Earnings conference call of Pokarna Limited. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. I would now like to hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa: Thanks everyone and welcome to Pokarna Limited's Q3 & 9M FY17 Earnings Conference Call. We have with us today Mr. Gautam Chand Jain –Chairman and Managing Director and Mr. Paras Kumar Jain –Chief Operating Officer of Pokarna Engineered Stone Limited.

We will begin this call with opening remarks from the management following which we will have the floor open for interactive Q&A session. Before we begin I would like to point out that certain statements made in today's discussions may be forward-looking in nature and a note to that effect was stated in the con call invites sent to you. We trust you have had a chance to receive and go through the documents and financial performance. I would now like to hand over to Mr. Paras Kumar Jain to make his opening remarks. Over to you, Paras.

Paras Kumar Jain: Thank you, Gavin. Good afternoon and thank you everyone for joining us. Let me briefly run you through our key financial highlights for the period before moving towards discussing the key operational developments.

Consolidated revenues for the nine months of FY17 stood at Rs. 281 crore as against Rs. 296 crore generated during nine months of FY16. Lower by 5% largely owing to soft performance of granite business. Of the total Rs. 281 crore during nine months of FY17 granite business generated revenues of Rs. 109 crore as against Rs. 138 crore delivered during nine months of FY16 lower by 21%.

Quartz business generated revenues worth Rs. 164 crore during nine months of FY17 as against Rs. 152 crore during nine months of FY16 higher by 8% owing to consistent demand.

Apparel business delivered revenues worth Rs. 7 crore during nine months FY17 as against Rs. 6 crore generated during corresponding period in the last year. Consolidated EBITDA for nine months of FY17 stood at Rs. 105 crore as against Rs. 102 crore generated during nine months of FY16. Higher owing to greater share of value accretive quartz business.

Margin for nine months of FY17 stood at about 38% as against 35% reported during nine months of FY16. Progression on account of improved product mix of quartz business. Consolidated PAT for nine months of FY17 stood at Rs. 52 crore as against Rs. 46 crore delivered during nine months of FY16 higher by 13%. Profitability expansion was largely driven by consistent performance of quartz business better cost controls and lower interest expense.

Moving on to business wise discussion. Soft performance of granite division is reflective of the challenging environment prevailing at present. Realizations remain



under pressure owing to excessive supply pushed by industry participants across geographies. Prices at the factory level of practically all kinds of natural stone like granite from all over the world are relatively down due to oversupply. As is only to be expected new companies keep trying to enter the US granite market and they are being treated ruthlessly.

The prices they get barely cover the production cost and payment terms are interpreted so flexibly that basically the entire company survival is at risk if the buyer chooses not to pay. However, those factories which have established themselves well among the distribution network in the US and have demonstrated a history of quality, reliability and timely delivery are relatively doing well and will relatively do well once the dust is settled and economics of doing sustainable business is understood by the participants.

As we have said before our focus is on profitability and sustainable growth. We are tweaking our business model more towards cut to size segments where the realizations are relatively better and because we have certain inherent advantages considering our captive quarries strength. We are confident that our product and service levels and are clear it deserves the particular price.

We believe that our strategy may have a nearest impact in the form of lower revenue but on long term basis we will preserve if not improve on the overall profitability and credibility of the business. Quartz business continues to deliver consistent growth on the back of steady demand. Quartz as a category continues to score over others surfaces given its innate properties and value proposition. In addition to the demand our efforts towards developing new and innovative designs and increased customer service levels has helped us in developing a strong connect with our clients.

We remain positive that our core expertise in the business coupled with our attempts towards widening our reach and improving brand visibility should help us grow their business sizably in the near future. Also we are working hard on the profit improvements to increase capacity utilization and to improve the quality rates. For both granite and quartz business the company had continued participation in large trade shows in the US and Europe displaying our range of products which garnered continued corporate and brands visibility in this market.

Also we are making right investments to assure that our brand experience is optimized. While we are focused on driving our stone business result in the present we also have our vision firmly held on the future as we continue to build even deeper relationship with our clients and greater alignment with our business partners especially now that we have additional capacity coming up in quartz in the near future.

So coming to apparel business. Performance of apparel business remained muted. Our efforts in recent time have been primarily towards containing its losses. Going forward however the company has decided to firm up its plan for the business and as such has set up a committee comprising of independent directors to chart out a clear road map for the business. The committee will explore and evaluate varied options which could include restructuring, selling, leasing, exchanging, transferring, hiring off or otherwise disposing of the same. The business decision has been largely undertaken with the objective of generating maximum value for our shareholders. Committee has been mandate to accelerate submission of the report to the board.

Moving on to some of the key operational developments following which we can commence the Q&A session. We recently announced our plan for expanding the



quartz production capacity by 130% by building a new facility at a cost of Rs. 325 crore. The investment is expected to be completed by June 2018 and would be funded by a mix of internal and external sources. We are secured as sanction from a lead bank for term loan of Rs. 250 crore.

Further we have also secured the exclusive right to use the Bretonstone technology in India through March 2020. The new facility will be one of the most advanced Bretonstone plant with a production capacity of 7 lakhs square meters. Higher record capacity will not only help us to meet the growing demand in the international market but will also help us to address the budding domestic demand.

The second operational development was entering into an exclusive partnership with IKEA to serve our exclusive quartz supply and installation partner. Under the agreement, we will supply the engineered quartz surface countertop and also will undertake measuring planning installation and home delivery of our products to IKEA's customers. This we believe is a reflection of Pokarna's capability scale and our ramp up is quality and customer delight.

The above two developments have created triggers for our quartz business and will not only help us in consolidating our position as the country's largest manufacturer and exporter of premium quality engineered stone but also will help us aid in improving our visibility in the international markets and contest more competitively with global players.

To conclude, I would like to state that we are positive about our business and its growth potential. Pain in granite business may continue for some more time however as I mentioned earlier we are positive about our strategy and believe that our company will benefit from it in the long term. We also have been successful in containing the losses in our apparel business. Going ahead we are hopeful of addressing the business problems one way or the other.

Quartz business continues to remain strong and our recent strategic initiatives will help us further accelerate its growth. We are also working towards converting rupee term loans in quartz business into dollar denominated which should relatively trim down the interest expense.

Thank you very much. We would now open up for questions.

Moderator:

Thank you very much, sir.

The first question is from the line of Dhruv Bhimrajka from Crescita Investments. Please go ahead.

Dhruv Bhimrajka:

My question is specifically regarding the product lines that we offer. So in this quarter on a year-on-year basis we have seen a slowdown in quartz business. So how do we see the traction coming up for Q4 and the year ahead for Quartz?

Gautam Chand Jain:

The slowdown is basically not for any other reason but there were two main reasons. The change in the thickness that were supplied to the market as well as few machinery improvements and maintenance reasons for a little bit of lesser productivity. But this in turn will give us more better quality productivity for the future.

Dhruv Bhimrajka:

Okay and for the granite business sir like for the last three quarters we have been seeing the excess supplies from countries like Brazil as you always pointed out in the conference call. So how is the same situation maintaining now, is there an



addition of few more markets who are oversupplying the granites or how is it going up and how do we see a relief over here?

Gautam Chand Jain: Yes true, the reason is not only Brazil but also a few of other players from India as well as China who are trying to dump material in American market. And since the demand for granite actually is slowing down compared to the growth that is being visible for quartz business we look at future also to take some more time to adjust to this environment. But since for the outdoor use granite is one material which is always going to be doing good business in the future. That is one of the reason but the other reason that we have little slowdown is also for the reason that basically our business more is focused on the quarrying side of the granite business.

We have lot of challenges in the quarries from time to time and then whenever there is an improvement and development happening in the quarries we see that the development takes three months to six months depending on the layer of the working that we do in the quarries. So this combined together have we see that there is a slowdown as well as development in the quarries and also the competition from different players in the American market is the main reason. This will continue for some more time, but we are positive that granite business will also not grow as much as like Quartz is growing today but it is going to be a consistent business.

Dhruv Bhimrajka: Okay and sir one last question. Sir, we have seen the new Donald Trump administration coming in and his focus on creating more jobs in his home land. So we being a large supplier of quartz and granites to the US, do we see any import duty coming in for our products in particular because there are companies there who will make presentations to him. Like for example if they want to create jobs they can impose an import duty of something of this sort. So how are we positioned over there, does US in itself has more supplies of completing their needs in-house, is there any chances of any duty or something coming in on our products?

Gautam Chand Jain: There are couple of players in American market in the quartz segment but I do not think this product is going to attract so much of attention from the Trump administration. But honestly it will be too premature to even visualize whether what will he do or what he will not do. Mainly he is focusing on creating more jobs in American market but importing of products I do not think may affect our kind of business because neither America produces raw material quartz or neither America has enough of granite quarries. So this will be a very small segment and honestly I do not think it may attract so much of attention from Trump. But we will be part of the system that I do not know what he is going to do. But I still feel that this may not be a big issue for us to look at.

Dhruv Bhimrajka: Are we paying anything right now when we export any duties or taxes when we export our products to US?

Gautam Chand Jain: No, we do not pay any duties neither the customer pays any import duties on products being imported from India.

Moderator: Thank you. Next question is from the line of Viraj from Equirus Securities.

Viraj: Just had a couple of questions. One with the new CAPEX that you are doing for Rs. 325 crore. Can you talk a little bit more about where are we in terms of approval stage or have you located the land, have you bought the land and when you say June 18, I am assuming then it is only one year out, so where are we in terms of that?



Gautam Chand Jain: Yes, we have already mentioned that we have bank sanctions in place. We have also signed the purchase agreement with Breton. And as far as the land is concerned, we have already shortlisted the land and requested the Telengana State Government for allotment and we are awaiting a final word from the government. We have shortlisted the land as shown by the government itself. So we are fairly positive that we should look at June 2018 starting of the new production line.

Viraj: Sure. And sir, at what level of utilization can you break even in the new line?

Gautam Chand Jain: We should be breaking even by about 60%.

See we have lot of new innovations that Breton has just developed. So it will depend on the quality of the look of the products that we are going to make. So the breakeven will range from 50% to 60% actually of the production capacity.

Viraj: And will that product be or will that capacity be significantly used for the new collaboration that you have had with IKEA?

Gautam Chand Jain: See initially we will be looking at fulfilling the demand of the American markets also and there is a still beginning face of IKEA because what IKEA has projected for the next five years so IKEA will be gradually ramping up their operations in India and according to their demand that we will be fulfilling their demand also. So right now it is not going to be fully focusing only for IKEA. We will also cater to our existing customers internationally and we are also looking at launching in the domestic market also in future.

Viraj: Sure. And sir, just last one thing on the debt. How much has our interest cost gone down in the first nine months of this year and what further reduction do you expect post the MCLR change that has happened with a lot of banks in January?

Gautam Chand Jain: Right now, the major interest burden is because of the Indian currency loan that we have in our books. We have already submitted to our bankers to convert the existing loan to foreign currency loans. So the major advantage will be possible once we convert the Indian currency loan to foreign currency loan. Right now the last year was Rs. 27 crore plus in nine months it has come down to Rs. 24 crore plus this nine months. So you can say about 10% reduction in the interest on the consolidated basis.

Moderator: Thank you. Next question is from the line of Pritesh Chhedda from Lucky Investments.

Pritesh Chhedda: Sir, from the previous question what is the interest cost percentage that we pay now and you know when you swap this from the current rupee loan to dollar loan what should be the payouts? So that is one question and the second question is on the current asset at Vizag on the quartz side. You know we are seeing about revenues being in the range of Rs. 50 crore and Rs. 55 crore for a fairly long time. Is there scope to improve these revenues on the current asset and to what extent?

Gautam Chand Jain: See the foreign currency loan would be available for approximately around 7.5% vis-à-vis with 13.9% interest we give to the bankers today on the Indian currency loan. Coming to the Vizag productivity as we have always maintained that right now we are presently utilizing optimum capacity. But then at times we need to undertake some repairs and maintenance in the lines and also change of colors



and patterns, sometimes brings down a bit of efficiencies. So we are working hard on the process improvement also to increase the capacity utilization and improve also the qualities to get better realization. So it is an ongoing process but you are right that this number will also more or less remain around the same depending on some product mix changes happening from quarter to quarter.

Pritesh Chhedda: Okay do we able to bring down your debt cost next year?

Gautam Chand Jain: Yes, we hope that.

Pritesh Chhedda: And lastly, I just want to check there is some so we gained from resin prices you know in few quarters. There is some drop-in margins in Quarter 3 on the quartz side. is there anything to read any observation that you want to highlight?

Gautam Chand Jain: No, your observation is right actually. Because the major component of raw material is quartz as well as resin. And resin prices are dictated by the world oil prices. And there are some components in this resin mix which are more of proprietary nature where they dictate the price. So mostly the prices in resin are not within our control. And this even of little profitability coming down is also because of the resin prices going up. We cannot predict what is going to be for the next quarter or future. But this is going to remain all the time.

Moderator: Thank you. Next question is from the line of Pratik Singhania from Param Capital.

Pratik Singhania: Taking from the previous question sir, currently you have total loan of Rs. 250 crore which includes short term and long term. So you are looking forward to convert the entire Rs. 250 crore into foreign currency?

Gautam Chand Jain: No, it would not be entire. I think around Rs. 70 crore will be converted to foreign currency and that is what proposal we have given because there are certain loans which will be still in the Indian currency but we have given different proposals for engineered stone and also for granite. So what we are looking at is major component of the loan in engineered stone to convert to foreign currency loan.

Pratik Singhania: Okay. So in FY18, Rs. 70 crore would be converted but as in when we go forward into FY19-20 like are you looking for to convert the entire loan into the foreign currency or let them stay as it is?

Gautam Chand Jain: No, there is a promoters' loan of about Rs. 75 crore so that will not be converted into foreign currency loan. But yes, the banking loan will be converted and also the new loan that we are taking for the new project will be in foreign currency.

Pratik Singhania: And that will be also at 7.5%?

Gautam Chand Jain: Yes.

Pratik Singhania: And sir, in terms of spending this Rs. 325 crore how will be the schedule of spending this over next 18 months?

Gautam Chand Jain: That is what I told that we propose to start this production in about another year and a quarter so that is about 15 months. So the utilization will be for constructing the, first acquiring the property land and then constructing the building and then paying to the machine suppliers. So this will be all consumed in next 15 months.

Pratik Singhania: Okay. And I think two quarters back in a con call you had mentioned that whenever you put an order to the **Breton** Company they tend to take approximately 12 to 24



months in supplying the machines. So over year as per the contract that we have signed, when are they scheduled to supply the machines?

Gautam Chand Jain: First commitment they have made to us is they will start supplying by the end of August and continue it in next three to four months will be the supply and then the erection will consequently happen. So we are looking at end of the next financial year to almost see that see through for erection and then the next quarter will be to do a dry run and trials.

Pratik Singhania: So how many lines would be there in this entire CAPEX?

Gautam Chand Jain: No, right now we will be doing only one line. But we will be having provision for expansion and also the line that we are doing now is going to be the most latest development of Breton in terms of the entire line itself. So this will be more longer in length and width. So with more new facilities to create different products, different looking products and also more efficiencies.

Pratik Singhania: So can we expect a higher EBITDA margin as and when this line reaches the peak capacity like what we have at present?

Gautam Chand Jain: Yes more or less definitely better than the existing EBITDA because we have facilities to create different looks in the production facilities. Also we are looking at once the production stabilizes we should have better efficiencies in terms of productivity also. So we will definitely look at improving the margins.

Pratik Singhania: Alright sir, and say after this capacity is say fulfilled or the capacity is like fully utilized what kind of an incremental CAPEX would we have to do for say utilizing that entire plant fully? I think that there can be additional lines that can be added over there?

Gautam Chand Jain: You are talking about the additional lines?

Pratik Singhania: Yes.

Gautam Chand Jain: Actually we should not look at that amount today because the infrastructure will still remain the same we do not require to reinvest much into the additional line capacity at the infrastructure level. But at that time, we will see what additional facilities or additional creation that Breton will make to improve the lines again because this is an ongoing process. So I think it is too early if you look at first putting up this new line in place.

Pratik Singhania: Right. So out of this Rs. 325 crore what will be the total contribution of the component of the machines and the erection part of the breakdown?

Gautam Chand Jain: About Rs. 185 crore to Rs. 200 crore will be the machines part. Then there will be lot of equipment to handle and to store and then infrastructure within the premises. So machines say around Rs. 200 crore.

Pratik Singhania: Okay. And my second last question would be in terms of so last time when we had set up quartz facility we took a lot of time in terms of stabilizing the capacity because of which we ran into CDR. So what gives you confidence that over the year there would not be such kind of a delay in terms of ramping up the capacity that we are going to set up?



Gautam Chand Jain: Basically there were two reasons for the delay in getting the optimum output out of the plant. One we were ourselves new for Quartz production. It is a very technical product compared to what we do in granite. It is a very different philosophy. But more importantly was the recession in US because we have always focused on the American market and the severe recession that came in at the same time of our production starting time, was one of the main reasons. Also the network it is very different from what is granite network to sell the product and it takes time to establish the network. Now in these years with our experience of producing the product, market being very buoyant and also the network in place, we think it should not have any big issues at all because we have ready market with the customers already waiting for the product.

Pratik Singhania: Right. Sir and finally for the apparel business, do you have any time line by when this entire restructuring or whatever decision you want to take for apparel would be done?

Gautam Chand Jain: It is actually beginning of what we have to implement so where we will be first waiting for the Committee that is comprising of independent directors who have been given this job to assign various options. Whether it is all the options we have to explore how we can give it off or improve the margins of working or even for that matter do some joint venture or sell it. So it is actually too early to give a timeline or deadline. We will have to wait for the right options and then whatever is good for the shareholders' value creation is what we will do. But I do not think we will be able to do it immediately in this financial year. Just look at before the end of the next financial year we take some decision.

Pratik Singhania: Right sir, in the quartz business in the resin part you said that prices are increasing. So do we have a flexibility say if prices increase to a level that we are generating an EBITDA lower than say 40% like keeping 40% like a hurdle. So is there a possibility that we can increase the prices of the quartz and sell it in US?

Paras Kumar Jain: See when we do the contracts with our customers on the pricing side, we do not generally keep in the prices of our raw material. The prices are decided with various factors and raw material is one of the factor. So I think we have enough reasons to say that while the resin prices may firm up a bit, but still I think our strategy on maintaining the cost and improving the efficiencies would ensure that EBITDA is maintained at a level which is closer to the levels which we had in the last year.

Pratik Singhania: Okay and that was approximately, sir?

Paras Kumar Jain: Last year if you look at the whole year EBITDA we had about 45% for the last twelve months and for this nine months our EBITDA is close to 47%. So I think on an annual basis we will see an improvement in the EBITDA as what we had enjoyed last year.

Moderator: Thank you. Next question is from the line of Nikhil Upadhyay from Securities Investment Management.

Nikhil Upadhyay: Sir, my first question was on granite. So in last quarter call you had mentioned that we were working on a new quarry. So if you could just share your results or what is the customer input with respect to the product which we have received from the quarry? And for FY18 how do you see the overall outlook, so should we be able to maintain the current run rate of revenues which we are doing or do you think there could be some more pressure there?



Gautam Chand Jain: The new quarry is already operational and I am happy to share with you that the color has been very well accepted by the customers. But it is still in the development stage so we are looking at one or two quarters more to get in to full-fledged productivity. So the good thing is the color is very good very well accepted by the customers. And going forward we feel that this new quarry is going to play a very important role in the future turnover of the company. Regarding financial year 2018 it should be more or less consistent or it should improve. I do not think it should come down below this level but the results of different quarries may yield better results in the future.

Nikhil Upadhyay: Okay secondly sir, other than the Rs. 325 crore CAPEX for quartz which we are doing, on the granite side what would be the CAPEX which we would need to do for FY18 or anything do you think or any other CAPEX we would need to do here?

Gautam Chand Jain: See actually we have done already what was required to improve the efficiencies in the production and processing facilities. We have also taken some quarrying equipment and the investments have been made. So this is a continuous effort because what happens is our quarries are already having machines which are ranging from newest to last twenty years old machines. So wherever we need to replace the machines we will continue to do it wherever we do not need to reinvest anything we will avoid investing but this is need based. But overall we do not think we are looking at any major investments in the granite segment.

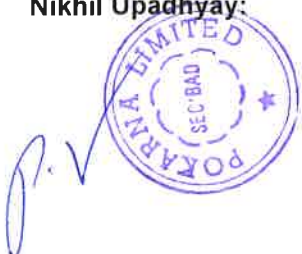
Nikhil Upadhyay: Okay secondly sir, if we look at Caesarstone and some of the players they have now started to look at Europe and UK market very aggressively and putting the sales team and all we had a very good I think our JV in the Benelux market and all. So if you could share how do you see the demand developing from the Europe market and do you see Europe has the potential to be like a US market or what are the challenges? So if you can just share and this is basically because as the new capacity comes up and we do not know how the US market moves in FY19 or anything. So do you think that markets like Europe or South East Asia or India can they can provide us incremental demand?

Paras Kumar Jain: See we are happy to share that we actually entered the UK market during the Q3 with a very big account I would not be able to give you a name for some business reasons. But today I think we have one of the important positions in the UK market through a customer we have. So UK is definitely a growing market and we believe that it is going to grow better than what it is today. Now coming to the other European markets the traction in the other European market is also good but not fairly good in the sense that there is some price competition coming in from different sources and also because since we operate at the European market particularly Italy and Netherlands and Benelux they operate more on a 12-mm thickness while the UK market operates on a 20 mm and a 30 mm thickness.

So as a strategy we are not very aggressive in going into other markets where 12 mm is predominant currently. However, since the markets are throwing opportunities we are exploring how do we go about it and as I said during my opening remarks definitely India is also a budding market that is the reason the new plants which we are setting up would be able to do a fairly big service of Indian markets because the current plant is an SEZ and relatively we are expensive when it comes to selling in the domestic market.

Nikhil Upadhyay:

Okay and two questions more on the market side of it. So we have always mentioned that we do not directly compete with the Chinese and compete more in the mid and the higher segments. And there to my understanding the competition is more on the product differentiation or the different patterns which we can put in the market. So just wanted to know once we put a pattern or a different product how



quickly are the Chinese able to bring a similar product in the market? So first thing are they able to bring it and if they are able to what is the general time lag in which they are able to copy the product?

Paras Kumar Jain: Every product has a life cycle. So when we introduce a product we typically know the life cycle, whether it is going to be for about a year or about five years or ten years down the line. So as a strategy as I told in the previous conference call also that we do not want to compete on the pricing side. So pattern is only one of the reasons where we have USP. Our other USP is that how quickly we are able to service the demand of the customer. Today if I made a customer wait for six months to get my design, then probably it does not really excite him. So it is not just the price, it is also the service levels which matter. So getting services is equally important.

So today my lead times is relatively better than the others and most important is when it comes to the quality, if you look at the product which a Chinese manufacturer makes vis-a-vis one what quality Breton manufacturer makes it you will see that while the design can be copied to some extent, yet the inherent properties of the stone cannot be copied. Because what happens is that the machinery and the process is such that the product does not have that superior mechanical and technical characteristic.

Nikhil Upadhyay: Okay. So all these factors basically define the premium?

Paras Kumar Jain: But they know all these factors were pretty much because see what happens is sometimes copies can be easily created, sometimes it is very difficult to create copies. So typically we are not driven by the copy market, we are driven where we compete more on the service, more on the quality, more on giving them the better product on a quicker lead time. And also very important factor is that we generally do not get inspired or plagiarized by the copies coming in the market. Since we have experience of fashion both from our granite and also from our garment experience, we believe in creating our own designs and bringing the innovations on the front. That is the reason many of our products they have been actually accepted well in the market and even competition was surprised that such type of products we brought into the market and successfully marketed.

Nikhil Upadhyay: Okay and just last question sir. If we look at some of the leading players when they put their line in the US they had made some IP changes in terms of the equipment in order to improve the product quality. So with the new line which we are putting in, is there any improvements on the technology side or as a result we are able to produce better product which is probably not in their market through our own R&D or is it basically whatever the improvement in the technology that Breton has done that we are getting?

Gautam Chand Jain: Yes, in fact as I mentioned in the beginning that this new project that we are going to do will be the next generation technology not even what is existing today. So we probably will be the first company in the world to deploy this kind of technology. And this does not mean at one location. There are lot of new innovations that Breton has developed and we will have definitely an edge in the international market to produce new look products.

There will be more technological production facilities in terms of new technology by way of robots working in the plant. The product that will come out of this new concept will be very different and I am sure that what you mentioned about other competitors in the world market we will also be able to do with also our experience on this existing line working on this for the last seven, eight years there will be lot of operational improvements with this new technology and also apart from the product



and the efficiency the whole product quality itself will be much different than what we already have actually.

Paras Kumar Jain: And to add to what Mr. Jain said, the line which we have bought is not off the rack line from Breton. This line has been completely configured with our experience of the existing line, we have made some modifications which were not in the original Breton layout. So this is basically a combination where the experience and innovation of Pokarna has been powered by the technology which Breton has.

Nikhil Upadhyay: Okay and just lastly sir, as you mentioned that this line would be much more efficient and basically we have put on in all our learning curve into this line. As the efficiencies kick in do we need to pass it on to the customers or do we have the ability to retain it with ourselves?

Paras Kumar Jain: See what happens is that wherever we have a flexibility of passing on our preference is always to pass on because in the trade it is not always good to have everything up our sleeves. So we would not be looking at retaining everything. Wherever we believe that we have the ability and the reason we will pass on.

Moderator: Thank you. Next question is from the line of Abhijay Sethia from SJC Advisors.

Abhijay Sethia: Yes, so my question was regarding the IKEA deal you have signed. So if I look at Caesarstone in the US, they have often said fairly categorically that the IKEA business margins are lower for them than the overall margin. Do you expect that to be similar for you as well?

Gautam Chand Jain: No, I do not think because the pricing strategy of Caesarstone and Silestone of other companies in US are quite on the higher side. So when probably they are comparing is what they are already realizing and I do not know the reason why they are not able to realize that from a customer like IKEA. Because it is very clear that IKEA stands for quality products, quality service and I do not think there is an issue of the margins that we are looking at. I am not very sure what prices that IKEA is giving to Caesarstone. But we are sure that we will be able to get at least the existing prices from IKEA's business account.

Paras Kumar Jain: If you look at our margin strategy for the last let us say 12 months plus or less than 24 months you have seen that we are very conscious about the margins we maintain in our business. So we are typically not looking at gaining the business at the cost of margin. So on the IKEA account also I do not see that it will be a value decretive or a lower margin sort of business.

Abhijay Sethia: Okay got it. That is good to know and once you start supplying to them in India, are there already talks to kind of start expanding the market with IKEA in the other countries that we are present in?

Paras Kumar Jain: See basically IKEA is a global opportunity for any supplier including us. So as and when the opportunities come, we will definitely participate. So it would be premature to tell you what we are doing right now. But what I can say is that as and when the opportunities are thrown up we will be there to take it up.

Abhijay Sethia: Understood and just a question on the incremental capacity of putting up Rs. 325 crore. Will there be any tax concessions as far as that investment is concerned?

Gautam Chand Jain: No, tax concessions will be are you talking about the state level or the central level?



- Abhijay Sethia:** Either.
- Gautam Chand Jain:** No, central level there is no concessions available for new projects because this project we propose to do under EOU scheme rather than SEZ scheme because SEZ there are some hindrances to market the product in the domestic market because of the local tax component being very high for SEZ with a value cap available for this product especially the quartz. So the value cap makes it more expensive when selling out of EOU status facility. But we are working with the local taxation with the state government and once we finalize we will be able to tell you but it is too early to talk about the local tax concessions whether we will get any or not.
- Abhijay Sethia:** Okay and then just last question from my side. You mentioned obviously that resin prices have been going up and that has an impact on margins. Now I am sure obviously a lot of your competitors are facing similar issues and especially on the granite side where we are seeing competition from Indian players, Chinese players, Brazilian players. Do you think that with the Brazilian Lira also rebounding and the margin pressure as well on the resin side that the worst has now kind of passed as far as the granite market is concerned, or is it too early to call that yet?
- Gautam Chand Jain:** I think so because the bottom out in Brazilian currency was already over and now the market is more or less aligned to the present valuation of the currency and the pricing. But here it will be always again the question of demand and supply. Fortunately, or unfortunately India has different colors of granite, Brazil has different colors of Granite, but the competition can come from within Indian players.
- Paras Kumar Jain:** And as I said early in the conference call on the granite side we are actually looking at doing some change in the business model and accelerating our focus more on the cut to size segment where the margins could be relatively better. And because we also have inherent quarry strength of servicing the demand on a larger and longer side.
- Abhijay Sethia:** But would that require more investment on the distribution side then we need to be perhaps closer to the end customer?
- Gautam Chand Jain:** No, distribution investment is not required but more manpower definitely to attend to service calls from different architects and building community and all.
- Paras Kumar Jain:** It is more of human resource investment than investing in the other infrastructure because we already have set up polishing machines and other allied machines required for making cut to size.
- Moderator:** Thank you. Next question is from the line of Sachin Kasera from Lucky Investment Managers.
- Sachin Kasera:** Sir, you mentioned that this is now that you have experienced you are looking at a much faster ramp up for this line. Could you indicate that you know that 60% is the breakeven level when do you hope to hit that and when do we hope to achieve full capacity in the new line?
- Gautam Chand Jain:** First is completion of one year for the installation we are hoping to get to 60% of the capacity utilization.
- Sachin Kasera:** Okay and what about touching peak capacity of 90%, 95%, sir, another year after that?



Gautam Chand Jain: We will never be able to do 95% of the capacity to be honest. We are looking at a target of 80% to 85% and that we should be able to achieve in three years' time.

Sachin Kasera: Okay. Secondly sir, regarding the tie up that you have with IKEA in India is it that it will be a co-branding or it will only be IKEA brand? And secondly, for the domestic market is there an exclusivity with IKEA that you cannot supply to anybody else if you could just give some color on that?

Paras Kumar Jain: For IKEA business, it is not going to be co-branded. We are going to service it as IKEA. So there is not going to be our brand will come again and which has been their philosophy across the geographies. So we respect that and what values in that relationship is more of having a larger partner on platform rather than looking at a brand there.

Sachin Kasera: But is it an exclusive partnership for India in the sense you cannot start your own brand or you cannot supply to any other retail chain in India other than IKEA is there some sort of an exclusivity in that agreement?

Paras Kumar Jain: No, we are actually not bound by any such exclusive issues. We are free to do whatever we want to do. We do not have any hindrances because of the relationship which we have with IKEA.

Gautam Chand Jain: On the contrary I would add here that we will be the exclusive supplier for IKEA.

Sachin Kasera: Sure. Secondly sir, will you just be doing the supply of material the way it is right now for the export market or you would also be taking care of the installations in India?

Gautam Chand Jain: No, we have already made it clear that this will be an end-to-end solution right from attending to the customer's kitchen, to take measurements, to fabricate in the factory, to deliver, to install.

Paras Kumar Jain: It is like end-to-end. Right from the product up to installation, the last mile connectivity will be done by us.

Sachin Kasera: So secondly sir, is the realization going to be similar as you get in the export market or because India is a little price conscious market here your realizations will be lower compared to what you get when you export?

Paras Kumar Jain: No, we believe that the realizations are fairly on the same levels. I do not see that realization would be on a relatively lower level.

Sachin Kasera: Okay. Secondly sir, since you mentioned that you are also looking at some export from the line till that domestic market is large enough to absorb the entire capacity. So in relation to IKEA are there any discussions in terms of looking in terms of supplying them to any other territory other than India going forward from this line?

Paras Kumar Jain: As I said Sachin, just I think somebody else also asked the same question. See we would not be able to give any more update on what are we doing with IKEA beyond India. But as I said that as and when the opportunities are thrown up by IKEA for different markets we will definitely participate in those opportunities.

Sachin Kasera: And just last question regarding the financing. What is the ratio between debt and equity and are we also going to get any credit from the supplier in terms of deferred payment or something like that if you could give that details?



Paras Kumar Jain: I think Sachin, that is something which is proprietary currently because when it comes to answering the deferred payment and all those things. So I think we would pass on that question for a while.

Sachin Kasera: Could you just share the break up between debt and equity how much of the Rs. 325 crore will be debt and how much will be equity if you can just share that much?

Paras Kumar Jain: As we said at the beginning of the call around Rs. 250 crore would be funded so debt and Rs. 75 crore would be internal accruals.

Moderator: Thank you. Next question is from the line of Kaustav Bubna from SKS Capital.

Kaustav Bubna: Yes, just wanted to know what is your current capacity in the quartz business?

Paras Kumar Jain: We have not been answering this question from the beginning of our conference call because for competitive reasons. So what I can say is that we have still room to improve the performance at the current plant.

Kaustav Bubna: But what is your capacity utilization can you say that?

Paras Kumar Jain: See that is what I am saying that if capacity utilization would be when I answered the other part of your question you can typically figure out the first one. So I would rather say this as I said at the earlier point is that we still have the ability to improve the capacity utilization and as I said in the beginning of the call that we are working hard on improving the capacity utilization rates and also improving the quality rate so that the output and through put is more.

Moderator: Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investment Managers.

Nisarg Vakharia: My first part of the question is related to the granites business. Your granites is the topline that we do is completely exported or there is some domestic component also in this business?

Gautam Chand Jain: There is both domestic as well as exports.

Nisarg Vakharia: What will be the percentage contribution of domestic in this topline?

Gautam Chand Jain: This is presently 60:40. Because we are trying to see if we can improve our topline by penetrating into domestic market to make up the loss that we are incurring in terms of losing the market share of the export market.

Nisarg Vakharia: So sir, you said 60% is domestic or exports?

Gautam Chand Jain: Export.

Nisarg Vakharia: And the realization that you get in the domestic market is the same as export or it is lower?

Gautam Chand Jain: It is more or less same only because it is just a conversion.

Nisarg Vakharia: Okay. In this quarter the domestic sales of granite has remained constant or you have taken a hit there also because of demonetization?



- Gautam Chand Jain:** No, demonetization is not much of an affect because we are not into retail segment. If we are doing some project in the domestic market that too with big established companies where there was indirect hit of the I would say monetization in the market. But honestly we cannot say because these orders are not instant and the payment is not instant. It takes time for getting the orders, executing the orders, collecting the money. So demonetization I would say that is not a big direct effect was but there is definitely indirect effects or quite some little while till it is again taken care by the currency in the market available for people to spent.
- Nisarg Vakharia:** Sir, moving on to the quartz business, you mentioned that there was some sort of production maintenance shutdown that you had taken. So the topline is softer because of that production shut down?
- Gautam Chand Jain:** See what happens is there are two types of shut downs actually. One is the timely maintenance of the existing line which also require shut down. The other one is upgrading from time-to-time the new innovations and opportunities that Breton provides us for improving the product quality and efficiency. So in this last quarter also we went through both of them and sometimes it is at the cost of productivity there is no other choice.
- Nisarg Vakharia:** So this Y-on-Y sir, if you see the EBIT margin which is lower is a function of also this or it is only a function of the resin prices going up?
- Paras Kumar Jain:** See on nine months' basis if you look at FY15-16 nine months we had an EBIT of around 44% on a FY16-17 nine months we have an EBIT of around 47%. I do not see that EBIT has really gone down on nine months' basis.
- Nisarg Vakharia:** No, not nine months I am only referring to quarter?
- Paras Kumar Jain:** Yes, quarter-on-quarter it is purely because of the resin prices. As I said that at the beginning we have also taken up some bit of marketing and sales promotion through participation in the trade shows largely. So it is function of various things. Resin component is also one of those.
- Nisarg Vakharia:** The new CAPEX that we are doing is going to be in the same complex as your Vishakhapatnam plant?
- Paras Kumar Jain:** No, this is going to be a greenfield facility.
- Nisarg Vakharia:** And you have mentioned the capacity in the beginning of the call. But roughly what is the revenue that it translates to?
- Paras Kumar Jain:** I think more of that should be coming in probably next couple of calls.
- Nisarg Vakharia:** And you have also mentioned that you would be doing higher than 45% EBITDA margin that you are doing currently in quartz?
- Paras Kumar Jain:** I would rather not give a number to it I would say that the margins from this new line would be better than the margins from the existing line.
- Nisarg Vakharia:** Okay but the return on capital employed would be at least similar as what you make on the current quartz line?
- Paras Kumar Jain:** That is what our endeavors are on actually to see that the return ratios are intact.



Moderator: Thank you. The next question is from the line of Ravi Purohit from Securities Investment Management.

Ravi Purohit: Most of my questions are done. Just one follow up question. In this IKEA tie up that we have, we have mentioned that we will be providing the end-to-end solutions. As of now in the quartz business we are supplying only the material and we do not do end-to-end solutions. So therefore, on this existing capacity let us say our realization is x but when we do x end-to-end installations do our realizations go up significantly in terms of the installation service, the additional service that you provide gets paid for?

Gautam Chand Jain: Yes, value addition will be there but it is depending on the volumes because this is going to be a very beginning of the IKEA relationship. So we do not see an immediate jump in terms of great benefit out of this. This is one of the important account and we are proud to be identified by IKEA as partners. But then we are looking at a long-term association with IKEA and the benefits also will be long term.

Ravi Purohit: And this demonetization things like GSTs do they open up the domestic granite market for you because granite is largely a very, very unorganized market you have lots of unorganized, organized players? But it is not as organized as some of the other larger sectors. So do you think that could kind of drive your granite business in India?

Gautam Chand Jain: I will be honest with you GST is an unknown animal we will all come to know about the effect of GST once we start implementing it. On the face of it yes, we think that organized players will be benefitted like us right implementation of GST. But it will all depend on the government what rates of taxes how they are implemented. So yes, overall any organized player will definitely be benefitted, it looks like this. But let us cross it when we come across.

Ravi Purohit: Okay, just one small question. Can you quantify the size of the Indian domestic granite and quartz and marble markets? We have been trying to understand but there is no reference material to really understand what is the actual size of this market? To understand the potential that India itself holds for you over the next 5 to 10 years?

Paras Kumar Jain: See we have not done any study on the domestic market because as yourself said it is very unorganized. So really giving a number to the industry size would be doing a crystal gazing even if it was to be commissioned by the industry or the commerce wing of the industry still it would be difficult to assign a number. But I think it is relatively large size both in terms of granite and quartz and quartz is also picking up and granite is also equally picking up because of the upgradation in the lifestyle happening.

Moderator: Thank you. Ladies and gentlemen, due to time constraints this was the last question. I would now like to hand over the floor to the management for closing comments. Over to you, sir.

Paras Kumar Jain: Thanks everyone for joining us on this call. We look forward to talking to you again. Have a good day.

