SOMANY

Date: 17th May, 2024

BSE Limited	**National Stock Exchange of India Ltd. (NSE)**
Phiroze Jeejeebhoy Towers,	**Exchange Plaza,**
Dalal Street, Fort,	**Bandra Kurla Complex, Bandra (E),**
Mumbai — 400 001	**Mumbai — 400 051**
Scrip Code: 531548	**Symbol: SOMANYCERA**

Dear Sir/Madam,

Subject: Transcript of the Earnings call for Q4 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 6th May, 2024 & 15th May, 2024 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the Transcript of the Earnings Conference Call on the Financial Performance of the Company for the Quarter and Financial Year ended 31st March, 2024 held on Wednesday, 15th May, 2024.

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

This is for your information & records.

Thanking you,

Yours Faithfully,
For Somany Ceramics Limited

Ambrish Julka
Digitally signed by Ambrish Julka
Date: 2024.05.17 17:07:07 +05'30'

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

Encl: as above

"Somany Ceramics Limited
Q4 FY'24 Earnings Conference Call"

May 15, 2024

MANAGEMENT: **MR. ABHISHEK SOMANY – MD & CEO**
MR. SAILESH KEDAWAT – CHIEF FINANCIAL OFFICER
MR. KUMAR SUNIT – HEAD (STRATEGY & IR)

MODERATOR: **MR. KARAN BHATELIA – ASIAN MARKET SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Somany Ceramics Limited Q4 FY'24 Earnings Conference Call hosted by Asian Market Securities Limited.

This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions, and expectations of the Company as on date of this call. These statements are not the guarantee of future performance and involve risks and uncertainties that are difficult to predict. Actual results may differ from such expectation, projection, etc., whether expressed or implied. Participants are requested to exercise caution while referring to such statements and remarks.

As a reminder, all participants' line will be in the listen-only more 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Karan Bhatelia from Asian Market Securities Limited. Thank you and over to you, Mr. Karan.

Karan Bhatelia: Thank you, Manuja. A very warm evening, everybody. On behalf of Asian Market Securities, I welcome you all to Somany Ceramics 4th Quarter FY'24 Results Conference Call.

We have the senior Management Team with us to take us through the results and then Q&A.

With that I hand over the call to Abhishek ji for his opening remarks. Over to you. Thank you.

Abhishek Somany: Good evening, ladies and gentlemen for the earnings call for FY'23-24 and also for Q4.

First of all, let me apologize for the delay. Our Board Meeting ran a little longer than expected and therefore the delay on uploading the results and we got delayed by half an hour. So, apologies for that.

I would go through the market dynamics and also the way forward and the year gone by and then leave the financial discussions for Q&A.

As we all know that this year has been a very, very tough year and it's probably one of the toughest years for the building materials industry. The demand has been sluggish both in the domestic and in the export front, export because of the various issues around freight and the war and the domestic, because all the buildings construction which was ready has been delivered and all the new construction tiles comes at the last leg. So, therefore we expect that H2 and even beyond where the tile demand would start picking up. So, it's been a very, very tough year where there was an additional pressure on the domestic market because of the lesser-than-expected export sales, so more geopolitical.

The positives have been that the pressure on our raw material, specifically, gas has not been there. We've seen gas prices going down. Just to point out in FY'23, the average gas price across per year was Rs.59 standard cubic meter and in FY'24 it came down to Rs.45 standard cubic meter. So, there is been a reduction in that respect.

Other than that, we've also done a lot of work on production efficiencies and various other cost measures, which has led to better EBITDA.

However, if I take you to the numbers of FY'24 and also Q4'24, we've done a sale of 732 on a consol level and 2,575 on a FY'24 level. EBITDA on a consol level is up from 9% to 10.9% and the entire year from 7.7% to 9.8%. Similarly, the PAT and the PBT has also gone up subsequently.

The capacity utilization has been approximately 86% for the FY'24, down by a percent and a half from FY'23. In Q4, we were up a little bit QoQ and also YoY by approximately a percent on the YoY. The capacity utilization comes at 89% for the quarter and 86% as far as FY'24 is concerned.

The segregation between Ceramic, PVT, GVT, as mentioned earlier, our focus is on GVT, and we've been able to increase the GVT share by 2% overall on FY'23 to FY'24. So, from 32%, now GVT share in our portfolio is 34%. And if I talk of Q4 only, it is up from 32% last year Q4 up to 36%, so 4% increase on GVT in Q4 FY'24. Gas, I have already spoken about.

As far as the brand spend is concerned, we have spent approximately 2.5% of revenue on the brand. Most of that has happened in Q2 and Q3.

Capacity utilization in the sanitaryware segment is at about 70% and the faucet segment is run at 100% capacity utilization.

The other highlight is not a positive side is the ASP. Our ASP has gone down a little bit due to the added pressure and the sales incentive schemes which we've given to promote sales.

The guidance for next year is that we are looking at a low double-digit growth largely fueled by volume on the back of the new Max plant, which has started, and all the other plants also which are running at capacity. We have a total capacity of approximately 78 to 79 mn.sq.mtrs. of installed capacity. This year we sold approximately 68 mn.sq.mtrs. So, therefore we have enough capacity in hand to get our growth for next year.

The EBITDA target for next year or the forward statement for EBITDA is an improvement of another 1% to 1.5% on EBITDA, subject to a stable input, specifically gas pricing, which is extremely volatile due to the various wars which are continuing in the world.

The other third Point I would like to specifically mention here. The brand spend also this year we expect to increase to closer to 3% of revenue.

I would now let open the floor to Q&A and welcome any questions on the FY'24. Thank you so much.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Keshav Lahoti from HDFC Securities. Please go ahead.

Keshav Lahoti: So, want to get a more sense on the bathware business. So, if you look at this bathware business, has just grown 9% year-on-year in FY'24 and just a single-digit growth on such a low base. So, how you see this business growing in FY'25 and in upcoming years?

Abhishek Somany: We are again looking at a double-digit growth over here. I think sanitaryware is one place where we have struggled in the last year. Bath fittings have done very well. I can give it to you separately for bath fittings and sanitaryware offline, but again the same reasons, I think the whole building materials industry which is the front of the wall has suffered entire last year in the sanitaryware industry and also the tile industry. So, I do understand it's low base, but again we are not the strongest players in the bathware like we are in tile. So, there is a lot of other multinationals and also big players like Parry (India), CERA in the domestic market who also have kind of struggled across the year for a double-digit growth.

Keshav Lahoti: So, what would be your sense on what sort of Morbi thing in the domestic market, are they dumping, what is happening because export has sort of weekend, so how you see the scenario?

Abhishek Somany: Yes, a little bit of something has happened in the GVT because lot of the plants which came up in Morbi were primarily for export market and export kind of crumbled in Q3, from an average of about 1,800 crores to 1,900 crores a month, it crumbled to about 1,300 crores, even in one month it was 1,200 crores. Not everything came into the domestic market, but it did put pressure on the domestic market.

Keshav Lahoti: What is the plan on the CAPEX side, what sort of CAPEX should we model for this and next year?

Abhishek Somany: I would like my finance team to answer that.

Sailesh Kedawat: So, we are not planning much any major CAPEX in the next financial year. It will all be routine CAPEX, routine in nature, so maybe around 50 to 60 crores are what we are targeting for next year.

Kumar Sunit: Unless we undertake any modernization project, that's something which we will decide in due course.

Keshav Lahoti: How is the progress happening on the Nepal project front?

Kumar Sunit: Sorry?

Keshav Lahoti: On Nepal project you had in pipeline?

Abhishek Somany: Nepal Project is again due to issues over there or rain, this, that and the other, that is delayed a little bit, it will probably only be in place next year. And even from that point of view, Nepal market which is estimated to be a 25 mn.sq.mtrs market, last year, it slowed down to approximately 13 to 14 mn.sq.mtrs. So, currently we have enough material to sell in Nepal. We are in no major hurry to bring that plant up to stream. It's better that it comes in next year.

Keshav Lahoti: So, next year, will it be in H1 or H2?

Abhishek Somany: H2.

Keshav Lahoti: How many dealers you have added in this year and what are your future plans?

Kumar Sunit: So, we have added almost 100 dealer addition this year, gross number is much higher, but there are certain deletions as well because of various reasons. So, a net addition of 110 dealers during this fiscal year.

Abhishek Somany: And I think we would add anywhere between 100 to 150 dealers next year, but also we are going to try and see as to how the net addition goes up a little more where we have lesser number of non-performing dealers coming out.

Moderator: The next question is from the line of Rohan Shah from Valorem Capital. Please go ahead.

Rohan Shah: My first question would be what you see the demand in the next two to three years considering that real estate is booming, and people are wanting to renovate their houses or buying new houses and the tile demand not just on floors now but on walls as well as on dining table. So, do you think we should see good growth after H2 as you said for the next 2-3 years?

Abhishek Somany: Yes, Rohan, absolutely. And I think you have touched upon two separate items. You've touched upon a segment which is very nascent in India, which is the furniture and the tabletop segment, that will grow in time. Obviously, the figure is very low, but that's a separate animal altogether. But obviously, it will aid a little bit of value and also a little bit of demand for the tile industry, for example, a lot of ceramic wooden strips have replaced the normal wooden strips in the industry. So, the same way the tabletop there will be a little bit of cannibalization where we will try and replace the agglomerate marble, the granite in that market, but it's not a very, very big thing in terms of today's market size, but yes, it's slated to grow in a very big way. But you are very right, the real estate market is booming, and a lot of new construction is going to be happening, both in terms of buildings with the better builders building more and more, and also the individual home. So, both that will come more in Tier-2, Tier-3 towns. So, our concentration is on both accounts, on the projects and the government projects in the big town and the small IHVs is in this Tier-2, Tier-3, Tier-4 towns. So, both places we are concentrating retail on the smaller towns project and the bigger town. We do believe that probably Q3 and Q4 onwards, there should be a huge traction in this demand. As far as the total tile demand is concerned, I think the industry domestically is slated to grow at about 4% to 5%, maybe 6%, and to that extent, we would grow almost at double that rate. Having said that, we are thinking of a low single digit. The industry as far as export is concerned, is volatile. It depends on many factors, but export also is slated to grow in a big way. So, we expect an addition of approximately 2,000 to 3,000 crores, if not more, on the current base of approximately 19,000 crores of exports So, closer to the '23-24 1,000 crores is the export. The total tile market we believe is about 56,000 to 58,000 crores, out of which about 19,000 crores is export, and the balance is India. So, that is the growth projected and let's see how the real estate market chugs along in India. But we are very sure that the next 2-3 years are good years for the total building material industry.

Rohan Shah: And sir, you touched upon exports as well. What is the current situation of exports, because if that goes to a good amount, then we might have no dumping from Morbi because they all would be focused there, so currently what is the scenario you are seeing in the export market?

Abhishek Somany: No, I don't have exact scenario but what I do here is it is up from the 1,300 crores to approximately 1,700 crores right now.

Moderator: The next question is from the line of Jyoti Gupta from Nirmal Bang. Please go ahead.

Jyoti Gupta: I would like to understand, could you give realization in terms of GVT, PVT and ceramics, is it possible to get those numbers?

Abhishek Somany: We could not hear you. You got cut off. Could you please repeat?

Jyoti Gupta: I said could I get the breakup of the realization of CVT versus PVT and ceramics?

Abhishek Somany: That's confidential data. I would not like to discuss it openly.

Jyoti Gupta: My next question is then on the GVT side. I mean, it's understood the realizations that are coming from GVT are higher compared to the other two segments. So, where do we see GVT in the next two years from 34%, does it go to like 40% or 36%, what's the kind of guidance would you like to give on that?

Abhishek Somany: I had guided even in the last couple of quarters. If you see our expansion which had happened, we put a GVT plant in our plant in West India which started in 2023 Q4, and then we put an expanded capacity around the same time in our South plant for expanding our GVT capacity and the last GVT capacity addition has been in the Somany Max, which started in January this year in 2024. So, all put together, the GVT capacity is now adequate for the next 18 months. From that point of view, currently we are at 34% market share of GVP of our portfolio. We do believe that next year this will be notching up closer to 38% and going forward to 40%. If you see Q4, we are already at 36% share.

Jyoti Gupta: Yes, that's why, because obviously since you are increasing and the rest of the two are actually decreasing, which means that the realization from here is better, and which is also reflected in your numbers. So, is there any component of synchronization as well, which is factoring in your realization number as well?

Abhishek Somany: Yes, in fact, because of the premiumization we've been able to not substantially go down on the average sales price if you see. Considering that the market was far more under pressure than what our ASP has gone down. GVT of course gets us a better realization, and the Max plant will give us even better realization when it sells more of that product. But having said that, GVT is the segment which is also under the maximum pressure in terms of pricing, because everybody seems to be making only GVT. So, it's not going to be an easy route forward, but very clearly our ASP will only go up when more and more the GVT goes up.

Jyoti Gupta: Like FY'24, do we see such kind of pressure in terms of exports, and do you think is that going to really spill over the domestic market in any material way I mean negatively impact the market in any material way?

Abhishek Somany: Due to exports?

Jyoti Gupta: Yes. We had a decline in the export market, right. Do you see that -

Abhishek Somany: We had a decline in the export market in the Q3, but since February, March is again back up from 1,200, 1,300 crores a month to about 1,700 crore a month now.

Jyoti Gupta: So, you think that from here the export market is only going to build and any negative impact of it will not be there in the domestic market for FY'25?

Abhishek Somany: The only reason for the negative impact is the market also has been sluggish, Q3 was extremely sluggish. So, we cannot only point fingers at exports, that only added to the worry. But, yes, export is at 1,700 crores and growing. So, from that perspective, hopefully more capacity would get consumed in the export market. But having said that, in the domestic market also, it was I think more than the price pressure, it was also our extra incentive and discounting which we gave, which brought down the ASP. So, it was a host of everything put together.

Moderator: The next question is from the line of Keshav Garg from Counter Cyclical PMS. Please go ahead.

Keshav Garg: Sir just wanted to understand that, now if we see that since 2017 our EBITDA is more or less stagnant, even though last year the EBITDA has increased, so basically our operating margins have been reduced from 14% to 9%. So, what will it take for the margins to again go back to the earlier mid-teen levels?

Kumar Sunit: Yes, the performance is in an increasing trend that you have already mentioned. But I would like to clarify that there is some pressure on our receivables and that's because of the March phenomena, because this year March, we have reported a better growth as compared to the preceding year March and that's why the number you could see there is 3-4 days of operation. And coming to your EBITDA question, 17 versus now if you see last 2-3 years EBITDA trend, that is something which is consistently on an upward trend and we have been maintaining our guidance that our normalized EBITDA margin is something which should be around 11% or so plus/minus 1%, 2% and we are reaching towards that normalized trajectory of EBITDA. This year we closed around close to 10% and we are expecting around 1.5% improvement going forward on EBITDA.

Abhishek Somany: I would also like to highlight that other than us, I think pretty much everybody in the industry has had no serious EBITDA growth. I do understand that there is a difference between us and market leader in terms of EBITDA. We've been able to digit a little bit this quarter and this year, but otherwise, there has not been any EBITDA increase across the board in any building materials industry. What's happened is of course the capacity addition in volume has come, but it's come at the cost of higher gas cost and also larger pressure on pricing specifically due to the overcapacity in Morbi, which currently I must state that the pricing in Morbi has more than bottomed out. Anything going forward now is getting compromised on the product and the dealer and the consumer is clearly being able to visualize the compromised product which they're getting at a cheaper price.

Keshav Garg: Can we expect the 4th Quarter profit to sustain on a quarterly basis going forward?

Abhishek Somany: Not for Q1 and Q2. Q1 is extremely sluggish specifically because of the election. You must appreciate that all the labor goes back for voting, plus, our business has certain other elements which restrict the purchase if what I am saying in these two months, the builders are extremely cautious. So, from that point of view, the election months are week months normally. Any which ways it's been added this time because it's early. The elections normally are in May and June. So, April and May are going to be sluggish months. So, Q1 please don't any huge growth from that point of view, but yes from H2 onwards, the growth will start getting extremely robust and I would be able to maintain these margins because the sales would start coming to similar levels from Q3, Q4.

Kumar Sunit: Just to add, please understand whatever guidance we give be it on top line or margin front, we try to maintain our guidance for the annualized basis. So, it should not be extrapolated on a quarterly basis.

Keshav Garg: Also, wanted to understand that the difference in the margin between the industry leader and us, sir, is it only due to higher operating leverage that the industry leader enjoy or is it that our average selling price and the product mix is also inferior to the market leader?

Abhishek Somany: Yes, our product mix and the selling price is inferior to the market leader, #1. #2, of course, operating leverages do come into play. #3 a much larger part of his manufacturing is in the North, which is approximately 50% and there is favorable gas pricing in the north compared to Gujarat and mainly compared to the South. Closer to the market, proximity to the market also makes a little bit of difference for industry leader for the local market, which is a very strong market for both of us. So, these three attributes put together are the reason for the difference in the margins.

Keshav Garg: Sir, we don't have any large CAPEX plan for this financial year, so do you think that the Company will become debt-free by the end of FY'25? And sir if so are there any plans for a further share buyback?

Kumar Sunit: So, if you see at a standalone level, we are anyways net debt plus for the last two years. There are some debts on consolidated level, and I think we have explained multiple times in the past, so no repeating it again. If SPV debt is outstanding in various multiple small SPV, SPV is for project financing. And we have been amortizing schedule for almost 40 and odd crores every year and as of now our long-term borrowing is around Rs.185 crores. So, it would get amortized over the period of three to four years. So, there is no point mixing the cash surplus that holding Company at standalone level with the SPV debt. This is the fair policy which we have been maintaining.

Abhishek Somany: And as far as capital allocation is concerned, we will see how and when the cash flows are, whether we need it for expansion, if not then we will obviously have a more favorable dividend payout or I am not too sure about the share buyback, if that happens or not at that level but definitely would be more favorable dividend payouts.

Kumar Sunit: And that is something which is demonstrated in the last 24 months also. We have done our CAPEX of almost 400 crores plus and only a marginal debt of 25% was taken and that too in SPV, otherwise it's largely from internal sources.

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

Jenish Karia: Like we mentioned in 4th Quarter, there is a 400-basis points improvement in our mix towards the GVT side, which is great. But if I look at the gross margins, that is not being reflected in the gross margins despite our gas cost reducing by 400 basis points on a YoY basis. Gross margin expansion is only 200 basis points. So, could you help us with the reasons for this, is it -?

Abhishek Somany: GVT is something which is on one end growing but also under pressure in terms of pricing and everybody seems to be putting GVT in place and in 4th Quarter there have also been added sales incentives, which has been given to expedite for the sales. So, coupled with that is the reason why the increase over here is 400 and the increase in the bottom line is only 200.

Jenish Karia: Is it possible to quantify the discounts we gave?

Abhishek Somany: Not really. I can't quantify the scheme and the discount because this product wise, size wise, region wise. So, it's quite a complex matrix.

Jenish Karia: Just to understand the pressure in terms of GVT pricing, if you can just help us the premiums of GVT which were say two or three years ago and what are the premiums to the ceramic or PVT tiles, so we will understand what the kind of pressure the GVT is, and we can accordingly build in the numbers?

Abhishek Somany: So, I don't think you will be able to do that and build a number in there because GVT is also getting premiumized. So, for example the commodity which used to be of GVT, the bigger size is like 61, 20, which was supposed to be a premium size has become a commodity size and the larger size is has taken over which is 81, 60, 121, 80 and even the larger slab. So, it's a question of how quickly we can now move towards the larger slags and arrest the ASP falling. So, just giving you that number and you are doing the modeling, you would completely go wrong in that. So, maybe online we can speak, and my team can give you more insight as to what the number was of the 61, 20 two years ago, what the selling number is of 61, 20 in terms of volume and value and similarly the 3-4 sizes which were not existent 3-4 years ago today has come up in a small way, but it's also growing very quickly. And when that happens, that's when it will arrest the ASP going down because of 61, 20, 60, 60. So, you won't be able to modulate that. It would be a wrong model.

Jenish Karia: Second is on the working capital side. So, while our working capital has improved significantly on a YoY basis, a large part of the improvement is because of higher payable days and lower inventory base. So, is this a normalized scenario or there was some one-off you would like to clarify?

Sailesh Kedawat: I think this is a normalized scenario. The only thing which may happen henceforth, there is a small reduction in debtor days, but otherwise it's a normal scenario.

Kumar Sunit: Only clarity is whatever shift you are seeing last year versus this year, that was something because of some arrangement and we have already clarified earlier. But going forward, whatever level is today it will maintain.

Moderator: The next question is from the line of Sneha from Nuvama Wealth Management Limited. Please go ahead.

Sneha: Just a couple of questions from my end. Firstly, you mentioned that you expect 5% to 6% growth on the domestic industry. Just two things here. Of course, you are looking at a higher growth which is lower double-digit growth which guides for market share improvement. But the point I am trying to make here is that why do you look at only 5% to 6% given that we are expecting improvement in the real estate scenario and pickup in tiles sales given that there is so much inventory being sold out and we'll have better scenario coming ahead, for tile or even other building material categories for that matter.

Abhishek Somany: So, just to clarify Sneha, it's 5% to 6% domestic growth, which we are talking and not the entire industry. Export. I am not too sure as to what that growth will be. But on the domestic front, the two reasons why I say it's going to be 5% to 6%, because if you see the Morbi industry unlike the branded players, which are between 70% and 80% retail and most of our products go into retail and only 12% go into government, 8-9% percent go into private projects which are increasing. But if you see Morbi, other than export, if you see their sales good, 50% to 75% of the sales between the medium run brands to the small brand is in the projects. So, they're already well entrenched in the project segment. So, for them to grow on a very high base of project sale, therefore, I am saying 5% to 6% would be the growth in the industry and not higher for them. Because their concentration is more towards export. If I had to do the numbers with you on the top 4-5-6 players growing at single double digit at much higher base and all the rest of them growing at 5% if you look at the absolute square meterage which will come out, that math will tally.

Sneha: Secondly, on your margin guidance, while you said that 11% (+/-) 1%, what I am trying to understand in the previous quarters, even seen your margins swinging upwards of 13%, 15%-odd And now with your GVT portion increasing, why don't you expect a higher EBITDA margin, is it that market is very competitive at this point of time or is there higher discounting taking place, some sense there would be helpful?

Abhishek Somany: 14% EBITDA was only 5-6 years ago, in 2017 it was that year. Since then, it's been sub-10%. In fact, we have been -

Sneha: At the quarterly level, we've seen that happening in Q4 and this time we are at about 10.8%. We've seen your Q4 going up to -

Abhishek Somany: Last to last year Q4. That was a one-off, but otherwise if you see on an annualized basis, it's been steadily going up and we are talking of annualized basis only 1%, 1.5% we are looking at EBITDA increase. There is no turning back from the huge amount of pressure on a commoditized product like us in the market. That's been the scenario for the last 20 years. There is been a good year, a good two years, there is been an influx of capacity which comes in. Again, we brace for impact for those 1-2 years of extended capacity. So, yes, there is discounting, there is additional capacity in the system considering Morbi, if you see the number of units which are running today in Morbi there only at about 65% to 70% capacity utilization. So, therefore clearly there is pressure, and I don't think we've ever seen a single year where there has been no pressure in the tile industry in terms of demand versus supply. So, we are being cautious in saying that, this is something which we are sure we would be able to achieve. Having said that, the volume would grow in the high single digit or the low double digits, whatever it may be. Why I am saying that and why I mentioned that is that this year again we had said something and the whole industry really could not perform. So, I've been cautious because it's been so volatile the entire two years. But hopefully this year with everything else in our favor in terms of the raw material prices and also in terms that the building materials industry, real estate industry finally after five years is really looking up and generally it's a five-year cycle for this real estate industry, because whatever launches they do phase one, phase two takes between 2.5 to 5 years to deliver. So, therefore we do believe that there will be good traction in the Indian real estate industry and also the IHB industry. So, very confident of that. But on the EBITDA, we are sure we would be able to increase subject to of course, gas pricing remaining stable by 1, 1.5% or more.

Sneha: Given that you mentioned your lower double-digit kind of a guidance and you also mentioned that you expect Q1 and Q2 to be slightly subdued, do you have any breakup in terms of our understanding that how much high double digit can we expect in H2 and what sort of a single digit can we expect in H1, any sense there?

Abhishek Somany: You see, Q1, we, I don't think there would be any serious growth coming in at all because Q1 two months are going to be super, super, super tough and I think everybody across industry is feeling that, so I am not the only one. So, yes, I would be able to give you a better breakup maybe in the next call as to what it would be quarter-on-quarter.

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

Amit Purohit: Just one thing on the large tiles that you highlighted, have we seen pricing pressure in that category as well or that is slightly lower in terms of availability, not much of capacities are available relative to the normal GVT, what is the scenario there actually at an industry level?

Abhishek Somany: Scenario there is yes, there is lesser competition but the issue there is that with a lot of the Morbi industry going kind of unchecked because it's an expensive tile, there is more scope of the spurious practices which they adopt. So, therefore from that point of view, there is pressure, but otherwise anybody buying a better product generally would want to lean towards the better brand. But yes, there is that unfair competition which we face there a little more than in normal tiles.

Amit Purohit: Then effectively that they pass it on in terms of pricing or you think you are saying -?

Abhishek Somany: Yes, obviously. I mean if there is going to be unfair practices taking place, they land it to the dealer much lesser. So, from a consumer point of view when he's looking at a particular tile you have a decent amount of difference because of that element coming into place.

Amit Purohit: And these tiles are finding application more in the projects, right, rather than residential?

Abhishek Somany: Not really. Even in residential, these sizes are being put, but it is largely architect and influence-led.

Amit Purohit: Anything on the Morbi capacity addition, I mean the sense -

Abhishek Somany: I don't think there is any capacity addition taking place right now. Whatever capacity is to come will come in, in the next 3-4 months, which I believe is another six, seven plants mostly export-oriented. The amount of plants which are coming, that many plants are also going to shut down, non-viable ones, the smaller plants, the very expensive plants in terms of gas pricing. So, I don't think any significant new capacity is coming up in the next 12 months.

Amit Purohit: And when you say these plants which come in, they typically are at a significantly higher capacity than the earlier one, right, is that correct?

Abhishek Somany: Correct, obviously more efficient plants.

Moderator: The next question is from the line of Utkarsh from BOB Capital. Please go ahead.

Utkarsh: So, my first question here is regarding your Max plant. So, you can just give some sense what would be our current operating rate and at what level we expect to operate the plant by next March quarter?

Abhishek Somany: Currently, it's running between 40% and 50% capacity utilization and hopefully by March we should be in excess of 80% capacity utilization.

Utkarsh: I need just a few data points if you can help me. What would be the share of our ceramics and PVT volume mix for the March quarter and also for FY'24?

Abhishek Somany: Yes, of course, ceramic in FY'24 was 37%, PVT was 29% and GVT was 34%. If you look at Q4 FY'24, ceramic was 35%, PVT was 29% and GVT was 36%.

Utkarsh: Sir, what would our ad spend in Q3 and Q4 of FY'24 and Q4 of FY'23?

Abhishek Somany: The ad spend was 2.5% of revenue and largely the ad spend happens in Q3 and Q4.

Utkarsh: And it has remained same on a YoY basis?

Abhishek Somany: Yes, it remained the same. This year we expect it to go up.

Utkarsh: And what is your revenue growth for sanitaryware and faucet for March quarter and for FY'24 as well?

Kumar Sunit: 7% for Q4 and 9% for full year.

Utkarsh: I am asking you separately.

Abhishek Somany: Sorry, I don't have the number for Q4. Yes, it's 7% growth and 9%, but I don't have the exact absolute number. It is Rs.80 crores of the bathware business in Q4 and last year Q4 was Rs.74 crores.

Utkarsh: We have that data from the presentation. I am asking separately for sanitary ware and faucet.

Abhishek Somany: Yes, yes, I am giving you sanitaryware and faucet only.

Utkarsh: I will take this data offline sir.

Moderator: The next question is from the line of Yash Tedia from Maximal Capital. Please go ahead.

Yash Tedia: I just wanted to know a couple of things. So, what would be the proportion of natural gas cost in our total proportion cost?

Abhishek Somany: Approximately 30%.

Yash Tedia: So, the EBITDA push which we are guiding about say 1%, 1.5% in this financial year, so what are the levers which we are banking on for the same?

Abhishek Somany: The two levers are increased GVT production, and the second lever is increased capacity utilization.

Yash Tedia: The capacity utilization for this quarter is already pretty high. So, the playout of operating leverage is not that great if I am not wrong?

Abhishek Somany: Because we can outsource a lot more.

Moderator: The next question is from the line of Miraj from Arihant Capital. Please go ahead.

Miraj: Just a couple of things from my side and one clarification. Firstly, I want to understand on the ASP front that how is this monitored, how does this fluctuate, is it purely based on how much discounts you give or what kind of demand struggles that happen or also factored in this because I want to understand if we are anticipating next year to have a very robust demand, our ASP should increase from year on and this should be the bottom? The second question is on the GVT side. If you could tell me what is our capacity in GVT and the utilization for FY'24 in GVT?

Abhishek Somany: Capacity for GVT, I don't have that number offline, but I'll give it to you. My team is working on it. As far as the first question is concerned, the pressure is all to do with the demand in the market and also to do with premiumization. So, the ASP number going up or going down depends on how quickly we can premiumize because the commodity there is more of a discounting pressure, there are a lot more players in the commodity segment than in the premium segment. So, it's a question of premiumization, which we are continuously putting effort to increase and our revenue increase the ASP. Your second question on what is our total capacity for GVT. Out of the 78 million, we have a capacity of 25 million GVT, 21 of that is our own capacity, four is outsourced.

Miraj: As you mentioned, sir, premiumization is one of the reasons that will take care of the ASP. So, currently could you just give us some picture that from our sales right now, what percentage would be premium products, what percentage would be commodity products, if you could just throw some light on that?

Abhishek Somany: That's a very complex matrix to give you, because every product has a premium and non-premium products. So, I'll have to take you size wise. That will take a long time.

Miraj: And lastly, you mentioned, the guidance for next year is single digit growth or double-digit growth.

Abhishek Somany: Low double-digit growth.

Moderator: The next question is from the line of Vinit Shankar from JM Financial. Please go ahead.

Vinit Shankar: I just wanted to ask, if you can give us the absolute gas prices for RAS Gujarat gas and the biofuel and also the mix if you can?

Abhishek Somany: For the South it is Rs.50. The last 2-3 months average is the best guidance. So, that's what I am telling you. South it is Rs.50 standard cubic meter, in Morbi it is Rs.47 standard cubic meter and in our North plant it is Rs.45 standard cubic meter. If you look at the entire year South has been Rs.52 standard cubic meter, Morbi is Rs.45 standard cubic meter and in the north it's been Rs.43, 44 standard cubic meter.

Vinit Shankar: Just wanted to confirm again, Morbi currently what's the price?

Abhishek Somany: Current Rs.45 for the year.

Vinit Shankar: If you can also give us your retail and institutional sales mix, B2B versus B2C?

Kumar Sunit: Our retail almost is 80% of our sales mix and 20% is coming through institutional, which comprises various segments including the government contracts, the private builders, the corporates, all these institutions put together is around 20% and 80% is coming through our retail network which we call dealer network.

Vinit Shankar: One of our competitor has aggressively gone into the government project side and is increasing the team size in that particular segment. So, are we also doing something in that area if you can highlight?

Abhishek Somany: The Government projects are really doing well. So, we already have a team in place for government. Obviously as and when the sale goes up, we keep increasing the manpower across India. So, obviously, we cannot ignore government is 12% of our revenue and that will remain the same or maybe go up slowly because the government projects are really moving up to a value chain.

Vinit Shankar: Sir just one last question on the gas again, was there any contribution of spot gas during the quarter?

Abhishek Somany: Entire South spot, yes.

Moderator: Thank you. The next question is from the line of Abhishek Shah from Velcro capital. Please go ahead.

Abhishek Shah: I actually wanted to understand in terms of pricing, our average realization or at company level or at industry level, how has the pricing moved in the last 10 years, what we heard was prices have not increased for the last 10 or even 14 years. I just wanted to check is that correct and may be if you can help us understand that better, that's one. The second question is if I look at most real estate listed players, at least their sales booking has actually gone up 2x or even 3x or even 4x over the last couple of years. So, we are not talking about 10% or 20% growth, we are talking about multiples. So, what I am trying to understand is if there is a lag of two, 2-2.5 years, could we see that level of growth coming in our industry as well? And are we prepared in terms of capacity if something like that comes, will we be able to take advantage of it? Thank you.

Abhishek Somany: So, your first question absolute figures have gone up because size have become larger, better, thicker and also more in GVT and DVT than ceramics in the last 10 years. If you look at the absolute number, yes, it has gone up, but otherwise you are very right in saying that in 10 years, inflation adjusted prices have only gone down. It's probably the only industry in the building material where prices have become much, much more under pressure. Some of it is positive, which is because of operating leverages the, indigenization of machinery, Indianization of plant, the total capacity going up, efficiencies of plants, etc. But I think the absolute pricing obviously has gone up on two accounts, premiumization of tiles and also gas price is going up so that puts up the price pressure because all of this has come at a cost of an inflation adjusted situation which is not favorable for the industry. So, I hope I am able to answer the first question. The second question Morbi is running at 65% to 70% capacity. So, yes, in case there is a huge uptake in the building material, which is now going to come over one year, which is we are pretty sure if it comes over five years we are very, very well-poised to do that. Any new capacity in the industry to be put in Greenfield takes about 15 months, Brownfield takes about nine months. So, yes, currently considering that 35% of Morbi is underutilized, there is more than enough capacity for us to take that advantage.

Abhishek Shah: Just one more thing. If there are talks about the US imposing anti-dumping duty on exports from India, how will that impact our sector if I want to understand?

Abhishek Somany: We don't export to the US at all and what we are hearing is that the US duty which they were talking is not going to be as severe, but I am nobody to take that call as to how severe it will be. But I do believe that the US in the total gambit is approximately next year if we are looking at a Rs. 22,000 crore is approximately about 8% to 10% of the value of the US export. It's about Rs. 140 crore a year that's about 7% to 8% of the total export of which the duty will be put in probably 3% to 4% of those material. It's not going to be a blanket duty across the sizes. So, I don't think that's going to move the needle too much. But then if you remember last year, we were afraid of the European duty and people were. 50%, 80%, 90% duty with Europe will impose in on India and finally it came at 6%. I do believe the US is also going to be in the single digits or maybe in the very low double digits as far as this is concerned. So, I do not feel that is going to be a major concern for the exports.

Moderator: Thank you. The next question is from the line of Akshay from Canara Robeco Mutual Fund. Please go ahead.

Akshay: Sir. Just one question. If we consider that you just said that Retail is 80% and Institution is 20% and if you see that all these real estate launches, etc., they fall under the Institution part and Morbi is already over-index there and they have spare capacity. So, isn't it that Morbi will be much better way in capitalizing this demand versus us. How does it benefit us because we are more dependent on the retail side or is it that you expect this 80:20 share to shift, I mean so how does it benefit us?

Abhishek Somany: No. The 80:20 shares may not shift very much. I think it will be probably 75:25. Obviously the project is going to be a large kicker in the next couple of years. So, we will increase our project share by 5%, 7% from the existing 20%. So, that is one and most of the projects beyond the point cannot be supplied only by Morbi, so there is enough capacity in Morbi, which is lying vacant. Some of it will be directly supplied to the project, some of it will be contracted by us, so there is more than enough capacity available. That's one thing which we are not really afraid of.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Somany for closing comments. Over to you Sir.

Abhishek Somany: Thank you for joining us for the Earnings Call and I hope this year is a much better year than next year. We are hopeful backing on the real estate industry being extremely robust and strong. So, minus the 1st Quarter, which is going to be a very, very tough quarter due to elections, I think Quarter 3, Quarter 4 onwards, we do see a good run up for the next three to four years. Thank you so much. And we would wait for the same Earnings Call in Quarter 2. Thank you so much.

Moderator: On behalf of Asian Market Security Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.