CERA

CSL/2022-23/88
16th May, 2022

To, BSE Limited Corporate Relationship Department 1st Floor, New Trading Ring Rotunda Building, P J Towers Dalal Street, Fort, Mumbai – 400001. Scrip Code :532443 Scrip ID: CERA	To, National Stock Exchange of India Limited Exchange Plaza Bandra Kurla Complex Bandra (East) Mumbai – 400051. Scrip Code: CERA

Dear Sir/Madam,

Sub: Transcript of the Conference Call held on 11th May, 2022

Ref: Regulation 30 of the SERI (LODR) Regulations, 2015

With reference to our letter CSL/2022-23/60 dated 28th April, 2022, intimating you about the Q4 FY2022 Earnings Conference Call held on 11th May, 2022, please find attached the transcript of the aforesaid conference call.

The same is available on the website of the company i.e. www.cera-india.com

We hope you will take the same on record.

Thanking you,

Yours faithfully,
For Cera Sanitaryware Limited,

Hemal Sadiwala
Company Secretary
Encl: As Above

CERA Sanitaryware Limited

Q4 & FY22 Earnings Conference Call Transcript

May 11, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Q4 & FY22 earnings conference call of CERA Sanitaryware Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I'll now hand the conference over to Mr. Mayank Vaswani from CDR India. Thank you, and over to you, Mr. Vaswani.

Mayank Vaswani: Good morning, everyone and thank you for joining us on the earnings call to discuss Cera Sanitaryware Ltd.'s Q4 & FY22 earnings which were announced yesterday. We have with us today the management team comprising Mr. Ayush Bagla – Executive Director and Mr. Rajesh B. Shah – CFO and COO of Cera Sanitaryware Ltd. We will start the call with brief opening remarks from the management team following which we will open the call for Q&A.

A quick disclaimer before we begin. Some of the statements made in today's conference call may be forward-looking in nature and a detailed note in this regard is contained in the results documents that have been shared with all of you earlier.

I would now turn the call over to Mr. Ayush Bagla for his opening remarks. Thank-you.

Ayush Bagla: Good morning everyone. The earnings for the fourth quarter and twelve months for the period ended 31st March 2022 were adopted by the Board of Directors yesterday, 10th May 2022. The earning documents have been released to the stock exchanges.

We witnessed continued strong demand as the need for, and trend towards home upgradation and home improvement persists. Accelerating real-estate demand due to vectors like low mortgage rates, traction in residential unit sales, strong salary and hiring growth in the IT/ITes sector have combined to contribute to an all-time high sales velocity and an all-time high topline and an all-time high bottom line.

For Q4FY22, there are, two separate elements of impact that must be considered while evaluating revenue growth on a y-o-y basis. First, there is total income from operations from Anjani Tiles Limited where definitive agreements to divest the stake were signed in Q3 FY22. Anjani Tiles income from operations were included in the total income for the Q4 FY21 on a line-by-line basis contributing to a higher base effect and there is no corresponding income in the Q4 of FY22, this year.

Second, due to the application of AS 105, all income recognized in FY22 on a YTD basis upto the effective date of sale of our stake in Anjani has been reversed in the fourth quarter. As a result, Income from operations stands reduced by Rs. 52.48 crore in Q4 FY22 to reverse the income recognized in the first three quarters of the financial year.

If Ind AS 105 would not have been applied, consolidated revenues would have been Rs. 462 crore in Q4 FY22 compared to Rs. 410 crore that has been reported in the financial statements that are available to all. However, to enable an apple-to-apple comparison, I will provide all of you with the revenues of the Sanitaryware and Faucetware verticals in Q4 this year compared to Q4 last year.

At present, our manufacturing facility continues to function at high utilization levels. Capacity utilization for Q4 for sanitaryware was at 112% and we endeavor to operate the plant at similar levels through FY23. In Faucetware, capacity utilization was at 117% during Q4 and further increases are ongoing in FY23 even before the capex program commences.

This has been achieved by 'Productivity Enhancement Projects' undertaken at the manufacturing plants. The initiatives undertaken as part of the 'Productivity Enhancement Programs' at the Faucetware facility include:

1. Identifying and improving the net running time of machines
2. Increasing the brass casting production by way of higher throughput. This has been achieved through development of higher cavity tools.
3. Extensive study and related modifications to reduce the machining cycle time of equipment at the machine shop.
4. Increase in recovery of Zamak plated handles resulting in better raw materials to finished product yield.
5. Increase in production of brass plating.

In addition to the above, we have introduced automatic peeling machines in the grinding and polishing section which provide consistent contours, which are very crucial in high-end SKU's. All these initiatives have served to de-bottleneck the production lines at the shop floor. By aligning the capacities of various processes, we have been able to increase the overall production capacity of the existing plant and machinery. Importantly, all of the above-mentioned initiatives have been undertaken at minimal cost well within the capex budget.

The average production at the Faucetware plant was 1.8 lakh SKU's per month up to September 2021 i.e H1FY22 which has in March 2022 increased to an average of 2.5 lakh SKU's. Production will be ramped up further to 2.75 Lakh SKU's per month during FY23 which will set newer volume benchmarks enabling us to sweat our existing assets more extensively. This will also enable us to cater to the increased demand over the next 12 months.

The surge in demand for Cera's Faucetware continues. We are already the second largest player in Faucetware, and our growth rate is much higher than the rate of growth of the market size. As a result, our incremental market share is 1½ times our current market share. To cater to the rising demand and volumes, there is a need to increase manufacturing capacity. A detailed capacity expansion program has been proposed to the Board of Directors on 10th May i.e yesterday and after deliberation, the Board has approved the capital expenditure program for the Faucetware business. An expansion program has been approved which will enhance capacity from 2.75 lac SKUs per month to 4 lacs SKUs per month at a cost of Rs. 69 crore. Post commissioning of the added capacity, a review of market conditions, demand and the performance of the business will be undertaken by the Board after which further capacity enhancements will be considered.

The capacity expansion would entail developing both horizontal and vertical physical infrastructure at the existing facility. The existing floor plate of 10,900 sq. meters will become 30,300 sq. meters. The expansion would include construction of new grinding, polishing and casting departments as well as warehousing. There will be minimal increase in fixed costs in manufacturing other than the capital costs since the bulk of the costs are variable in nature. With de-bottlenecking of capacity and automation of processes, there will now be greater agility in the manufacturing set up to respond to dynamic changes in market demands and type of product. There will be uniqueness in technology with increase in automation and use of low pressure die casting.

We witnessed changes in the buying pattern of the consumer in the last few years especially post Covid. There is demand for color faucets, PVD, gold-colored products and Zed black painted products. The margin profile in each of these product categories are completely different than most chrome-based products.

In addition to the benefit of higher capacity, there will be significant manpower cost saving, and there will be an increased share of large sized SKU's and complicated SKU's. Expansion will cost Rs. 69 crore and will take twelve months from June 22 to June 23. Q2 FY24 will see the full revenue of the first phase of the expanded Faucetware capacity. There will no impact on outsourcing as the outsourced SKU's are low tech and low value. During the expansion phase, no disruption to current manufacturing is envisaged and a comprehensive risk mitigation model has been implemented envisaging various scenarios to ensure that market needs for Faucetware products are continuously met from the existing plant.

For Sanitaryware, the Board deliberated on the need for additional capacity and passed a proposal for a greenfield manufacturing facility. The existing location does not have adequate surplus land for a meaningful expansion, and a new greenfield plant within a radius of 100 kms from the current manufacturing plant is being planned. The size of the plant will be mostly likely will be 1 Lac SKU's per month and it will deliver products in 24 to 30 months at a cost of Rs. 128 crore. The zero date will be firmed up after the purchase of land and approvals for construction and supply of gas. During FY23, out of the total plant cost of Rs. 128 crore, a budget of Rs. 25 crore has been estimated for purchase of land. Since capex will commence post land acquisition, detailed plans for the phase wise capital expenditure will be made available. Post commissioning of the plant, there will be an extensive review of the market, of demand, and the possibility of another round of expansion at the sanitaryware facility.

Cash and cash equivalents as of 31st March 2022 was Rs. 580 crore against Rs. 479 crore in March 2021, an increase of 21%. Annual positive cash flow was in excess of Rs. 160 crore; so, going forward internal accruals will be used to fund the two capex programs and we have the flexibility to use some part of the cash and cash equivalent, if required. No debt raising or equity dilution is planned or required for the entire capacity expansion.

The quarter continued to witness an increase in prices of raw materials in line with the secular inflation trend prevailing across all industries. The Company undertook necessary price hikes to remain ahead of cost pressures. In sanitaryware, we undertook a price hike of 5% to 7% in February 2021, 4% in August 2021 and 10% in November 2021. The compounded impact of all this increases is 21%. In Faucetware, the price hike was from 8% to 10% in February 2021, another 10% in August 2021 and 5.5% in December 21. The compounded impact of all these price increases was 26%. Another price hike from May 2022 for both Sanitaryware and Faucetware is under finalization.

Despite the external environment witnessing an increase in prices of input costs and raw materials, CERA has not seen a material impact in Q4 FY22. On the Sanitaryware side, key items like China clay, Feldspar and Plaster of Paris which constitute more than 95% of Sanitaryware's raw-material mix had a combined impact of 6%. In the Sanitaryware business within the glazing recipe, which constitute less than 1% of Sanitaryware's raw material mix, the key constituents have moved 20% during Q4.

Due to availability of gas from isolated wells near our plant, the pricing of gas from GAIL continues to remain below market and will do so in the future. Price has remained stable at Rs. 13.26 per cubic meter in March 2022 which was Rs. 13.25 per cubic meter in December 2021. In Q4, GAIL provided ~44 % of the gas requirement of the Sanitaryware business. Sabarmati, our second source of gas which is a JV of BPCL and GSPC, the pricing went from Rs. 70.92 per cubic meter in December 2021 to Rs. 75.01 per cubic meter in March 2022, supplying 56 % of the gas needs of the plant for Q4. The impact of Sabarmati gas price rise per month was Rs. 21 lakh and for the entire quarter was Rs. 63 lakh. There have also been price increases in some of the ancillary cost items like transportation costs of 3%. Cost of corrugated boxes have gone up by 15%.

Our high reliance on renewable energy for over two decades has significantly benefited us given that 70% of our energy requirement is met from wind and solar power sources. As a result, we have been able to keep significant parts of our cost basket stable.

In that backdrop, we can go over the financials.

Revenues in Q4FY22 were Rs. 439 crore versus Rs. 431 crore in Q4FY21. EBITDA excluding other income was Rs. 82 crore in Q4 versus Rs. 63 crore in Q4FY21. The Gross Margin has improved at 53.47% in Q4FY22 against 47.20% in Q4FY21. The

EBITDA margin is higher by 406 basis points at 18.7% in Q4FY22 versus 14.6% in Q4 FY21, a growth of 30%. PAT was Rs. 52 crore in Q4 FY22 versus Rs. 43 crore in Q4 FY21, an increase of 20.9% Y-o-Y. EPS for Q4 was Rs. 40.04 versus Rs. 33.07 in Q4 FY20-21.

For Q4 FY22, 54% of the topline was from Sanitaryware, 33% from Faucetware, Tiles represented 11% and Wellness 2%. On a Y-o-Y basis, sanitaryware revenues registered an increase of 13%, Faucetware revenues increased by 11%, tiles decreased by 42% and wellness increased by 5%. The Sanitaryware and Faucetware verticals remain the bedrock of the business with contribution of 87% of our overall revenues.

There has been a reduction in the revenues from Tiles from Rs. 85 crore in Q4FY21 to Rs. 50 crore in the Q4 FY22, along with the reversal of revenues aggregating to Rs. 52 crore, these have served to optically deflate our revenue growth. If we compare revenues from the remaining business line of Sanitaryware, Faucetware and Wellness, these grew from Rs. 346 crore in Q4FY21 to Rs. 389 crore in Q4FY21 Y-o-Y growth of 12.43%. In comparison to Q3FY22, revenues from these three business lines grew by 12.10% on a Q-o-Q basis. This clearly indicates that the revenue momentum is intact, and we continue to witness encouraging demand for newly launched products. During the last three years, the new product development program contributed close to 23% of revenues.

Inventory days in Q4 FY22 were 73 days compared to 52 days in Q4 FY21. Receivable days in Q4 FY22 were 35 days versus 53 days. Payable days in Q4 were 49 days against 52 days in Q4 of FY21. Therefore, net working capital days in Q4 FY22 were 59 days versus 53 days in Q4 of FY21.

The Company is at an inflection point after having successfully broken the Rs. 1,250 crore topline barrier. It has achieved a topline of Rs. 1,442 crore, an increase of 20% Y-o-Y whereas EBIDTA excluding other income has increased from Rs. 150 crore to Rs. 221 crore, an increase of 47% Y-o-Y. We have witnessed robust profit growth as PAT has increased from Rs. 101 crore to Rs. 149 crore, an increase of 48%.

The multiplier effect of Rs. 200 crore of additional sale is visible to all. Though our topline has increased by 20%, EBIDTA has increased by 47 % and PAT has increased by 48%. We have indicated earlier that a high proportion of costs are variable in nature and given the incremental increase in topline with limited rise in fixed costs, the delta in profitability has been sharp.

Annual EBITDA margin expansion from 12.48% to 15.38% has already taken place and going forward we believe that there is more to come. During FY22 as markets were robust and receptive of our initiatives, we took a detailed look at all the shopfloor SOP's and undertook many yield improvement initiatives. Those have borne meaningful outcomes in terms of margin expansion.

After a fairly low CAPEX year of 21-22, during which we spent Rs. 11.12 crore against the capex budget of Rs. 17.19 crore, of which Rs. 6.12 crore were spent on Sanitaryware automation, Rs. 1.99 crore was spent on Faucetware automation and Rs. 3.01 on logistics and IT.

Other than the two expansion projects of Rs. 69 crore for Faucetware and Rs. 129 crore for Sanitaryware totaling Rs. 197 crore, which the Board of Directors have approved yesterday, the CAPEX for FY22-23 is Rs. 24.6 crore which will be divided amongst Sanitaryware automation at Rs. 7.7 crore, Faucetware automation at Rs. 6.4 crore, land and building at Rs. 6.6 crore and other IT & Logistics at Rs. 3.9 crore.

To conclude, I would like to mention that overall, the internal and external factors today bode well for Cera's future growth. We remain very enthusiastic and optimistic about the market opportunity. The efforts of the last 3-4 years in new product development, productivity gains at the shopfloor and deeper penetration of the brand provides a superb opportunity to scale up the business and enhance all matrices of profitability. Given our strong positioning in the industry for over four decades now, we at Cera continue to remain excited to make the most out of the positive evolving opportunities in our business.

I would now request the moderator to open the line for Q&A. Thank you very much.

Moderator: Thank you very much. The first question is from the line of Puneet Khanna from BOB Investment. Please go ahead.

Puneet Khanna: First of all, congratulations for the great results. So, I want to understand the breakdown of retail and project channel of sanitary and faucet sales, this is my first question. The second is what is the next two-to-three-year topline plan for the company overall? How the Company is planning to grow in sanitary and faucets?

Ayush Bagla: See the project pipeline is very strong and the project business is basically available for the taking, but we don't want that to become more than 30% or 33% of our overall top line because the brand has been built to monetize maximum margins via the B2C sales. So B2C sales are at 67%, 68% currently. We want that near that between 68% and 72% number. It's very easy to increase project sales. And people have done right, including Cera has done it during the worst periods of real estate, let's say, between 2012 and 2016. But given the buoyancy in household demand in home upgradation there is a case to increase the B2C business. The project pipeline is very strong. We have built customers, whether it's in the public sector, private sector, the national developers, smaller developers, we have built these customers over 20 years and we will retain these customers. So bulk of it is national customers, repeat orders, that's the nature of the pipeline.

And if you wanted to get a peep into the future topline, you see this trajectory that we have displayed this year that is the best indicator. It is 1.5 to 2 times the size of the market growth. Market might be growing at 7% to 11%. We don't have that number, because we don't have a third-party authenticated data on market size or market growth. And we are growing at 1.5 to 2 times that number. So that is the trajectory we are talking about. So based on even a higher base of Rs. 1,464 crore, we might look at 18% to 20% growth going forward over the next three years. So, if you see our previous commentary, we used to say that the Company doubles its topline every five years and every five years the PAT goes up by 2.5 times. So now we are looking at the Company doubling itself every 3.5 years.

Puneet Khanna: Understood. And one more idea to take just a brief, how much price increase you are planning in current form?

Ayush Bagla: The voice was not clear at all.

Puneet Khanna: So what I want to understand, how much price increase we are planning in May month?

Ayush Bagla: That number will be out very soon. That's a decision that the sales and marketing team takes, but that circular will be out to the market, dealers and all our channel partners within the next 10 days.

Puneet Khanna: Okay, thank you. All the best.

Moderator: Thank you. The next question is from the line of Hrishikesh Bhagat from Kotak Asset Management. Please go ahead.

Hrishikesh Bhagat: Just want your sense, how much was the growth in Sanitaryware and Faucetware Y-o-Y basis in Q4?

Ayush Bagla: In Sanitaryware just on a Q4-to-Q4 comparison, the increase was 13% and in Faucetware 11.3%.

Hrishikesh Bhagat: Okay. So, I just need one clarification, sir. If I look at it, especially from the last multiple quarters commentary, we have been fairly consistent talking about competitors facing challenges because they have imported base. And secondly, if you look at it, the price hikes in both these categories, I could be wrong here, but it has been fairly in low double-digit, if I'm not wrong. Now, if I do a reverse calculation and plus your commentary on the real estate has been fairly bullish regarding good inquiries and everything. Now if I combine all these things, the implied volume growth looks hardly in low single-digit or rather decline also if the price hikes have been probably mid double-digit also. So how should we look at this, in the sense, are we facing some challenge in gaining the incremental share despite these tailwinds?

Ayush Bagla: See we had 12 months working, but effectively we got 10.5 months. 15 days in January was not working. And the first month of the financial year April '21 was also not working. So, these numbers you have to look at it in that respect of...

Hrishikesh Bhagat: Sir, I'm talking specific about Q4. This has nothing to do with April, specific to Q4.

Ayush Bagla: Specific to Q4, the first 15 days of January was also, the markets were not working. And as far as availability is concerned, you hit a very important point. Availability over the last two and a half years in Sanitaryware was a big issue. Now, that issue we did not face for the bulk of this year. The single reason for that was throughput at the factory increased dramatically. And that's also the reason you saw a slight build-up of inventory on 31st March which will of course get fully absorbed in Q1 of this financial year. But the throughput of the factory has really increased.

Hrishikesh Bhagat: Sir, but that doesn't explain why the volume was low. I'm trying to understand why the volume, implied volume looks lower. Means, how should I reconcile this fact that you had double-digit price hikes, but revenue growth is also low double-digit, then implied volume growth is hardly anything, if I look at, so how do I reconcile this fact against your commentary of bullish real estate and this supply chain disruption.

Ayush Bagla: The best way to reconcile it is to look at the 12-month numbers. In Sanitaryware from Rs. 581 crore to Rs. 758 crore and in Faucetware from Rs. 339 crore to Rs. 477 crore, so increase of 41% in Faucetware and 30% in Sanitaryware.

Moderator: Thank you. The next question is from the line of Disha Sheth from Anvil.

Disha Sheth: Sir, I wanted your outlook on margins. At what range are we looking at for the margin for coming three years? That is my first question.

Ayush Bagla: See, the EBITDA margin even without other income for the quarter hit 18.78%. Now this is a number that has never happened in the last five, six years. And even for the year 15.35% without other income. This is also a number which has not happened in the last five, six years. So, margin growth, we are on that trajectory of margin growth. Annually 50 to 75 basis points increase is definitely possible, definitely possible. And I'm giving you a fairly conservative number.

Disha Sheth: Okay, that's helpful. And sir, when you said sanitary is 55% of sales and 33% is Faucetware, so sir growth, when you say 13% growth, it is more of value-driven right, because there increase prices around 20% for the year. So, sir, can you give an outlook on volume also, how our market share with other players.

Ayush Bagla: The Sanitaryware business and the sanitaryware industry is a very tiny industry. The industry size is very, very small, which is why it's a protective industry, got to build a moat around it and especially companies like Cera they never had to operate outside that moat. So, hanging onto your profitability by securing raw material, by making distributed availability of products across the country those are the severe challenges. We should look at this, we should look at the overall numbers, 31% increase in Sanitaryware sales, some of it is volume, some of it is value. And that should be the trajectory that use going forward.

Moderator: The next question is from the line of Suruchi Jain from Opportune Wealth Advisors Private Limited. Please go ahead.

Suruchi Jain: Yes, hi. I think my question about topline growth and PAT vision for five years and ten years has been answered. Just to confirm, you are expecting to double revenue in five years and you know despite the industry growth and despite the industry being small, so just wanted to confirm that. And secondly, when you said the industry is small, what would you say is the industrial size given both branded and unbranded as of today. And how is that growing.

Ayush Bagla: We just make our own estimates based on anecdotal data we get from our channel partners on industry size and the conversion that is happening from unorganized to organized both in Sanitaryware and Faucetware. So, this is not really data that is available from any association or any research group. Yes, so that data is just our internal estimates. That, of course, I mean, I'm sure you will be able to get it from many other research houses who make their own estimates, but this growth that is happening for Cera in Faucetware, I'll give you an example. Suppose the market is growing again at 7% to 10% and we have, let's say, 10% market share, but our incremental market share is 16%, 17%. So, we are capturing a much higher share of the growth and conversion that is taking place. That is the aim. That increase in incremental market share will lead to a faster catch-up of market share to the incremental market share number and that is happening in Sanitaryware as well. You see the jump from Rs. 581 crore to Rs. 758 crore, in Faucetware it was Rs. 338 crore to Rs. 477 crore, 41% increase.

Suruchi Jain: Okay, fair enough. And other than say doubling topline and impact, what's your long-term vision, like 20 years out, where do you see Cera?

Ayush Bagla: Right now you know the best way to look at this Company is the Company is going to double its topline every three and a half years. So six, seven years is the best kind of outlook we can give you. 20, 30 years down the Company might be the market leader in Sanitaryware, Faucetware, a large player in Tiles and allied businesses. So there is no plan of entering any kind of unrelated diversification. So, focus on capital employed, strict parameters on financial performance those will continue to be the metrics on which you can evaluate the Company as many years out.

Suruchi Jain: Okay, fair enough. So, you wouldn't enter like Asian Paints has started offering services, you wouldn't start offering say bathroom decorating and because I mean that is upcoming area so why not to increase say revenue of the Company, get into some kind of services, allied services.

Ayush Bagla: Those services are very manpower and service intensive. So, we do have a taste of that and you know we have almost 300 technicians that service our Faucetware customers across the country and we are the only Company which has not outsourced this activity to third-party contractors. We have kept this in-house. So we have experience in that, but we have no plans of entering that as a service. This is part of our 15-year warranty program for Faucetware and 10-year warranty program for Sanitaryware. So, there is no plan on entering those because then you're getting into something completely different.

Suruchi Jain: Okay, fair enough. Thank you so much. All the best.

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

Jenish Karia: Yes, thank you for the opportunity. Sir, firstly, so if I am correct in my understanding, Rs. 53 crore is the earnings impact on topline if you can help us with the EBITDA and PAT level impact for the same?

Ayush Bagla: If you look at consolidated numbers, there were lot of reversals because of accounting standards 105. So, the line-by-line consolidation which was taking place till the first three quarters were all reversed, which is why you're seeing negative interest rate, a reduction in depreciation and a reduction in other expenses because Tiles has a very high COGS. So, my request would be to at least for this quarter and this financial year if you concentrate on the standalone numbers that will give you a very accurate picture of the Company's financials and its businesses.

From next year onwards, the consolidation and standalone numbers will be very similar for two, three reasons. First, we have a 51% packaging subsidiary and a polymer subsidiary, which sell 100% of its products to Cera and Cera sells it in the outside market. So, their sales and Cera's purchases get canceled out and ultimately it reflects in Cera's topline. And the third joint venture is a tile Company called Milo where Cera has only 26% stake. So line-by-line consolidation does not take place. Only 26% of the PAT is added to Cera's PAT. So, next year the differences between consolidation and standalone will be virtually nothing. And this year because of the 105 there has been addition in the first three quarters and not only not additions in the fourth quarter but reversals of those charges in the fourth quarter. So, you will not get a accurate picture.

Jenish Karia: Okay, got it. So, basically, standalone margins would continue going forward indicatively.

Ayush Bagla: Yes, standalone margins, I mean, for the last many quarters the financial community was always asking when will we cross 14%, when will we cross 15%, so without other income we have crossed 15% and for the quarter we have crossed 18.78%. So the growth trajectory just a Rs. 200 crore increase in topline, changes in throughput at the shop floor have made all these differences. But this is the best indicator of the future trajectory.

Jenish Karia: Got it, sir. Okay. Sir, if you can also help us with full-year segment-wise revenue bifurcation.

Ayush Bagla: Yes, of course. Sanitaryware was Rs. 758 crore. 52.73% of sales, Faucetware was Rs. 477.77 crore, which was 33.22%, Tiles was Rs. 175.25 crore which was 12.18%, Wellness was Rs. 26.81 crore, which was 1.86% of sales.

Jenish Karia: Okay, great. Thank you, sir. And just one last question, you mentioned that we are doing a greenfield expansion in Gujarat only, in a 100 kilometers radius, so why not if greenfield only, why not diversified in different geography to benefit from freight costs or logistical diversification kind of a thing.

Ayush Bagla: There are two, three reasons. Gas availability is one major reason. Then the ecosystem of spares and the managerial inputs that are available at our factories using all of those in the greenfield mentioned, those are the three reasons. And gas availability is there in very few parts of Southern India. We don't know if we will find the requisite skilled labor in the same parts of Southern India.

Jenish Karia: Okay, okay. Got it. Understood, sir. Okay, that's all from my side. All the best for the future. Thank you.

Moderator: Thank you. The next question is from the line of Anirban Dutta from Jet Age Securities. Please go ahead.

Anirban Dutta: Yes, good morning, sir. Sir, what is the gas cost as a percentage of total cost in the Sanitaryware and Faucetware?

Ayush Bagla: Okay. I'll just give you that number. Gas as a percentage of sales in Q4 FY '21-'22 is 2.94%. And for the full-year...

Anirban Dutta: Sir, as a percentage of cost if you can give sir.

Ayush Bagla: Yes, percentage of cost is 3.53% and for the full-year as a percentage of sales is 2.43%, as a percentage of cost is 2.79%.

Anirban Dutta: Okay. And sir, one more question on gas. How much gas do we source from Gujarat Gas?

Ayush Bagla: No, we don't buy anything from Gujarat Gas. We buy 44% of our requirement from Gas Authorities and 56% from Sabarmati.

Moderator: Thank you. The next question is from the line of Saurabh Shroff from QRC Investment Advisors. Please go ahead.

Saurabh Shroff: Yes. Hi, Ayush. Congratulations on a great set of numbers. If you could just help us understand the capex plan. You mentioned that in-all it's about Rs. 190 crore - Rs. 200-odd crore, but for the next year what we are spending is a very small sum. So are you saying that a bulk of this will be back ended into FY '24? And if that is the case, when does the ramp up happen both for Faucetware and Sanitaryware segment?

Ayush Bagla: In Faucetware out of the Rs. 69 crore bulk of that will be spent during the year, because we'll be commissioning by June '23, so bulk of Rs. 69 crore will be spent during this financial year. And the benefits will start of course from June, July next year. In Sanitaryware because the land purchase is yet to happen, we have kept aside Rs. 25 crore for the land purchase and post land purchase there'll be an application for construction approvals, for gas pipeline approval and water usage approvals, which normally take anything between three to six months. So that's why we don't expect that anything more will be spent on the ground in terms of physical infrastructure during this financial year. So, Rs. 128 crore is the total expense, of which Rs. 25 crore we feel will be spent this year. If there's any change, we will come back of course to the Board and to the entire financial community and discuss these changes. But the ramp up of course in Sanitaryware, because it's a greenfield venture, will take 24 to 30 months, in Faucetware its much sooner. So you'll get the benefit in financial year '24 for at least nine months of the plant operating.

Saurabh Shroff: So the total capex for the year, including the automation of the two plants, etc. how much do you envisage spending during let's say FY '23?

Ayush Bagla: Okay. I'll give you that number. It is Rs. 69 plus Rs. 25 plus the regular capex number, wait I'll just give you that number. Rs. 24.6 crore is the regular capex which is divided into Sanitaryware automation Rs. 7.7, Faucetware Rs. 6.4, land and building Rs. 6.6 and IT and logistics at Rs. 3.9. So Rs. 24.6 plus Rs. 25 crore plus Rs. 69.

Saurabh Shroff: So about Rs. 120 crore.

Ayush Bagla: Yes.

Saurabh Shroff: Okay, that's great. Thank you. That's very helpful and all the best.

Moderator: Thank you. The next question is from the line of Akhil Parekh from Centrum. Please go ahead.

Akhil Parekh: Hi, Ayush. Many congratulations on a very good set of numbers. My first question is, we are targeting doubling of sales over next three and a half years, while our capacities in Sanitaryware are at 110% of utilization. Sir does that imply we really kind of increase our outsourcing till the time the new capacity comes sir?

Ayush Bagla: That if see the trend for the last many quarters that is already happening. Outsourcing was always between 46%, 49% about pre-COVID. Now outsourcing this quarter was 59% in Sanitaryware and 53%, almost 54% in Faucetware so that trend has already taken place. And you know each year the manufacturing capacity is earmarked for more and more complicated SKUs. So, those products which can be subsequently made by the newer vendors or existing vendors either adding capacity or even adding capability, newer SKUs are passed on to them. This year we added many new vendors. So broad basing the vendor base is a very important theme in the Company.

Akhil Parekh: Okay. So, what I'm thinking is basically this percentage from vendors will kind of increase over next two to three years at least in case of Sanitaryware.

Ayush Bagla: That's right.

Akhil Parekh: Okay. My second question is on again on the guidance part, right. I mean, EBITDA margin I didn't quite get it, like do we have achieved around 18%, 18.5% of standalone EBITDA margin for the quarter. So what you're hitting is we will improve our that number over next two to three years.

Ayush Bagla: See on EBITDA margin, it's easier to calculate a annual number rather than a quarterly number, because there are too many factors; there is seasonality, Jan to March quarter is the busiest, April, May, June, is the dullest quarter. So, keeping those seasonalities in mind, I'm saying the best number to look at is the annual number which was always in that 12%, 13%. We wanted to cross 14%, but we crossed 15%. We've made it 15.35%, so 50 to 75 basis point increase every year is definitely possible.

Akhil Parekh: Okay. Okay, got it. And third and last question on the time front, you mentioned that our annual run rate for this year was, I think, at around Rs. 180 crore, Rs. 190-odd crore basically. How should we forecast it for next few years basically going ahead?

Ayush Bagla: See last year the Tiles number was Rs. 250 crore, this year it was Rs. 175 crore, a degrowth of Rs. 75 crore. Now it's a matter of time, whether it's 12 to 15 months whether we go back to Rs. 250 crore, because the product mix has completely been revamped. I'll give you some statistics to back that up. Only 4% to 6% of our sales right now is soluble salt, 38% of our sales is GVT, double charge and full body is 21% of sales, (Inaudible) is 28% of sales, and others including outdoor tiles, paving tiles are 9% of sales. So, value-added sales are more than 90%. Even within this category we have introduced third fire tiles which are very expensive and full body double charge, which are also very expensive. So, we are not talking about Cera becoming the largest tiles Company or even competing with the top three, four tiles companies. We want to be a niche tiles player with high margins and that doesn't require a Rs. 500 crore, Rs. 800 crore or Rs. 1,000 crore for tiles turnover. This Rs. 175 crore will become Rs. 250 crore, then about Rs. 300 crore, Rs. 350 crore, even a growth of Rs. 75 crore annually or Rs. 60 crore annually is a very good number for the kind of product we're talking about.

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

Akshay Chheda: Yes, thank you for the opportunity. Sir, on this outsourcing for the Faucetware, so you did mention that it is currently at 54%. So once our capacity is ready in June '23, sir how do you see it going forward. I mean, would we be transferring some of our outsourcing volume to our in-house manufacturing or overall volumes only we would be increasing, so how that would shape up. So that was the first question.

Ayush Bagla: See the plant that is being expanded we want to make high-end products. So, chrome-based products have a certain margin profile, we want to make these red black products, color products, then of course black, red black products, gold plated products which all PVD products. The margin profile is completely different from chrome-based products. So we don't expect outsourcing to change in terms of numbers or value, but the percentage will go down, because the new plant capacity will provide many new ranges and many new products at the top end.

Akshay Chheda: Okay. And sir what is the margin difference between our own manufacturing and outsourcing manufacturing, I mean, the product that we outsource, I mean, is there any significant margin changes, differences?

Ayush Bagla: It depends on the product, because in Faucetware bulk of the outsourcing activities are in the components or low-end faucets. So there will be a slight difference in margin profile. But those vendors also have a lower cost of production, because they're in the SME category with a lot of families running their business and lesser supervision, lesser managerial input. In fact, our QC teams help them with their QC processes. So their costs are lower, their selling prices are also lower, but for the Company there is a significant added advantage in (Inaudible) when increasing outsourcing.

Akshay Chheda: Okay. Okay, sir. And the same holds true for Sanitaryware also.

Ayush Bagla: Yes, those products which are made by our outsourcing vendors, the Company cannot make at its own plant because they are low-end. And using this kind of plant with the kind of German (Inaudible) and the technology we have, for those products it's not worth our while.

Akshay Chheda: Understood. So, this is very helpful. Thank you.

Moderator: Thank you. The next question is from the line of Akash Shah from UTI Asset Management. Please go ahead.

Akash Shah: Thank you for the opportunity. I just had one question. So there is a 21% increase in employee cost on a Y-o-Y basis in Q4 FY '22. So would you kindly help us understand what is the reason behind that? Are there any one-off in that.

Ayush Bagla: This is part of the annual employee wage agreements that are raised, I mean, the wage agreements are four years in nature and that has a predefined escalations. So the new wage agreement was signed, let's say, in August '21 and one escalation kicked in which has various formulas on DA etc. And if you look at the existing 21% in value terms, some of it is also linked to achievement of certain targets, the variable portion. And given the throughput increase at the factory level, lot of workers hit their targets.

Akash Shah: Sure. And just would like to hear your thoughts on competition. How is the situation now on the ground and any comments how our competitor, I mean, are they facing supply shortages or are they able to compete with us on the ground?

Ayush Bagla: You know the Chinese vendors they, whatever orders even companies like Cera placed on the Chinese vendors before the Chinese New Year in February were dispatched and availability was not the issue from China. The, of course, Chinese currency is appreciated, rupee has not been very strong. And now again this COVID wave has hit China in April, so it's a evolving situation and we'll see how the Chinese imports, imports from China behave. As far as the domestic vendor base is concerned, they are operating at full capacity both in Sanitaryware and Faucetware, but they are limited by their abilities to supply complicated SPMs.

Moderator: Thank you. The next question is from the line of Chirag Lodaya from Valuequest Investment Advisors. Please go ahead.

Chirag Lodaya: Sir, first question was on asset turnover. What we can expect from Sanitaryware as well as faucet capex?

Ayush Bagla: Given the fact that Faucetware capacity that is being enhanced we'll be making those color-coded PVD, gold and z black products where the average selling price is 1.5 to 2 times the current selling price. On additional 1 lakh SKUs per month the turnover could increase by as high as Rs. 150 crore to Rs. 180 crore. So, asset turnover will be close to 3, 2.5 to 3 times. And the same in Sanitaryware, it will have a mix of all types of products, but it will tilt towards complicated SKUs. So the turnover will be again of around Rs. 180 crore to Rs. 200 crore from Sanitaryware as and when it's commissioned, so 1.5 to 2 times, 1.75 times asset turns in the Sanitaryware capex.

Moderator: Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Ayush Bagla for closing comments.

Ayush Bagla: Thank you very much. I would like to thank everyone for attending this call and for showing interest in Cera Sanitaryware Limited. Cera remains positive that its strong positioning in the industry would help it deliver steady and consistent growth going forward. Should you need any further clarification or would like to know more about the Company, please feel free to reach out to me or CDR India. Thank you once again for taking time to join the call and see you all next quarter. Thank you so much.

Moderator: Thank you. On behalf of Cera Sanitaryware Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Disclaimer: This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.