



## Pokarna Limited

Date: 29<sup>th</sup> May,2023

<b>BSE Limited, Phiroze Jeebhoy Towers, Dalal Street, Fort Mumbai - 400 001</b>  <b><u>Scrip Code: 532486</u></b>	<b>National Stock Exchange of India Ltd., Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E) Mumbai- 400 051</b>  <b><u>Symbol: POKARNA</u></b>
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Dear Sir/Madam,

### Earnings Call Transcripts

Pursuant to Regulation 46(2)(oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, the transcript of the audio call recording of the Company's Analyst Call held on 26<sup>th</sup> May 2023, on the Audited Financial Results (Standalone and Consolidated) of the Company for the quarter and financial year ended 31st March 2023, is attached herewith.

The transcript of recording can also be accessed on the Company's website using the following link:

<https://www.pokarna.com/investor-or-analyst-call-audio-recordings/>

This is for your information and records.

Thanking You,

Yours Faithfully,

**For and on behalf of Pokarna Limited**

GAUTAM  
CHAND JAIN

Digitally signed by  
GAUTAM CHAND JAIN  
Date: 2023.05.29  
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**Gautam Chand Jain**  
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## **Pokarna Limited**

### **Q4 FY23 Earnings Conference Call**

### **May 26, 2023**

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**Moderator:** Ladies and gentlemen, good day, and welcome to Pokarna Limited Q4 FY '23 Earnings Conference Call. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you, and over to you, Mr. Desa.

**Gavin Desa:** Thank you, Neerav. Good day, everyone, and a warm welcome to Pokarna Limited's Q4 and FY '23 Earnings Conference Call. We have with us today; Mr. Gautam Chand Jain, the Chairman and Managing Director; and Mr. Paras Kumar Jain, Chief Executive Officer at Pokarna Engineered Stone Limited. I trust most of you have gone through the presentation and the results mailed to you earlier. In the interest of time, we would be happy to start with Q&A immediately after this.

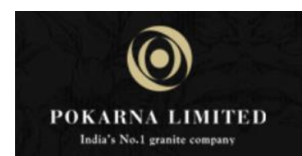
So I'd like to hand over to the moderator to open the floor for question and answers. Over to you, Nirav.

**Moderator:** Thank you very much. The first question is from the line of Dixit Doshi from Whitestone Financial.

**Dixit Doshi:** My first question is regarding the margins. So historically, always on the Quartz segment, we used to do in the range of 28% to 32% margin. I mean, this quarter, it was very abnormal 20% margin. Despite from last couple of quarters, we have been saying that the raw material prices are coming down. And I think in Q3, we have also launched some of the value-added products.

So what led to this erosion in the margin? Is it like the -- we have sold less value-added and more of a basic product? Or we sold out some inventory at lower prices during the end of the year?

**Paras Jain:** Okay. So I think on the margin side, we should take a view actually on an annual basis. If you look at the gross profit margin for the FY '22, it was around 45% range. At the end of the year this year, which is FY '23, which we are talking, is around 40%. And similarly, we had EBITDA



of around 29% for the whole year of last year, vis-a-vis 26% -- for this year.

So typically, we have seen about 10% decline in the margin, both on the gross level and at the EBITDA level. Predominantly, if you look at, at the beginning of the year, we had challenges surrounding the raw material prices. And at the end of the year, we had some low-value products being sold. So that's the reason we saw that decline. But I think we are confident of maintaining the margins on EBITDA side between 25% to 30%.

**Dixit Doshi:** Okay. And my second question is regarding the inventory level in the U.S. So how do you see the demand scenario over the next 2, 3 quarters? And also prior to the anti-dumping announcement, there was the inventory buildup. So are you seeing that the inventories are coming down at the store level in U.S.

**Paras Jain:** So in the U.S., the demands have been like not constant across the states. We have seen some states where the business is steady, but then there are some states where business is on a roller coaster ride. So inventory build-up has happened in channel, but some places, there is an easing out of inventory, but at some places, the inventory is still the major concern.

In addition to the inventory in quantity terms, the value terms is a concern because the shipping cost came down very steeply in the second half of the year compared to the first half of the year. So trade is still holding on to that inventory, and many of them are actually liquidating at a negative margin there to make sure that they provide room for the new products coming in.

So what we are now seeing is that the demand is coming from the new products which are getting introduced. And the old product still seems to be there in the pipeline in the inventory out in the U.S.

**Dixit Doshi:** Okay. And one last question. So our Q3 was very bad, let's say, almost Rs.105 crore of revenue in Quartz. And then we see some bit of recovery from that level. So now do you see that although to reach again that the INR180 crore, INR200 crore kind of level may take some time. But do you see that quarter-on-quarter, the performance will slightly improve, maybe slower pace?

**Paras Jain:** So I think we should be looking at quarter-on-quarter and talk like getting an annual guidance today would be a little far sighted. But I think on quarter-on-quarter, we think -- I think at the margin levels and at the PAT level, we seem to be comfortable that things should be in a right spot.

**Dixit Doshi:** Okay. And one -- just one last thing. On the Granite side this quarter, the performance was quite good. Do you think this is sustainable and how do you see demand there?

**Gautam Jain:** Actually, in Granite, as we told you, our primary focus is still on the quarrying side, and there are always challenges of shipping of the material from the ports. So if the shipping happens, the numbers improve and if the shipping is taking more time, again, the numbers come down. So



fortunately, right now, it is now eased. So we see that, more or less, we will maintain the same numbers now.

**Moderator:** The next question is from the line of Vaibhav Gupta from Bowhead Investment Advisors.

**Vaibhav Gupta:** Sir, in the last call, which was held on 20th February, you had said that gross margins are sustainable. But sir, as you can see, they fell by 1,500 basis points sequentially. So given that by the time last call happened, certain period of Q4 was already over and considering that we are a B2B export business and have visibility on pricing. So what can we make out of this quarter versus what was said in the past?

**Paras Jain:** Okay. So I just answered that question. So, you have to look at the gross margin on the annual basis because there could be even 1 month, which can actually impact the margin substantially because if we are selling a thickness versus the costs, which are lower side of it. So as I said it, when I previously answered the question, last year, we had a gross profit in the range view of around 45%.

And at the end of this year, it's 40%. We believe that this range of 40% to 45% can be maintained in the FY '24. Similarly, on the EBITDA side, we believe that the range of 25% to 30% can be maintained. We are pretty confident about it.

**Vaibhav Gupta:** Okay. And sir, how would you -- and was there any one-off in this quarter in Q3 or in Q4?

**Paras Jain:** No, we don't do any distressed sale. We are not in that type of business model. We take value for our product. But then depending upon how the market is reacting, what market is asking, the realizations can vary. So actually, it would be better to look at annual picture than being especially in this type of scenario where you see a little demand uncertainty to look at an annual picture than being influenced by a quarter.

**Vaibhav Gupta:** Okay sir. And any color on the mix, like the low end and the premium and like any color on that?

**Paras Jain:** I can give you a little different answer to it. What I can tell you is that now close to 15% of our sales is coming from the new designs, which we have introduced in the last 6 months. So this trend is only going to go up. As new design gets introduced, the value realization should be better in relative terms.

**Vaibhav Gupta:** Okay sir. And sir, like any typical price point, you would like to mention like what if like per requested price less than like what is those ranges you take for the mix, like the low end, the mid end and the premium end.

**Paras Jain:** See the low-end product can be at half of the \$10 basically. And the upper end can be above \$10. So that's how the mix can vary. So you can imagine a \$5 product versus a \$12 product. So what level of realization difference we are talking?



**Vaibhav Gupta:** Okay sir. And any progress in the new geographies we are planning to enter?

**Paras Jain:** Yes. So actually, for FY '23, if you see, we've started France as a geography. We started Mexico as a geography. We started Russia as a geography. And we've also added some distributors in the U.S. also as a market. So we are entering the new geographies, whether it is Mexico, Russia, France. And we are working on seeing where else we can penetrate.

**Vaibhav Gupta:** And what would be the saliency on these...

**Paras Jain:** Canada. Sorry, I did not mention Canada, yes. Sorry go ahead.

**Vaibhav Gupta:** Saliency on these markets in Q4, is it like above 10% or below this.

**Paras Jain:** They are in less than 10% range, but it's all promising markets. As I told in one of my last calls, which you mentioned 20th Feb, typically, this is like a biological cycle. It takes about 9 to 12 months before the customer actually matures and starts reordering. Because by the time of material -- we meet them, we present the samples, they make selection, the first orders go, arrive, they look at it, introducing the program and then the recycle order starts. So typically, it takes 9 to 12 months before they really catch up. But these are all promising territories and promising customers to our knowledge.

**Moderator:** Thank you, the next question is from the line of Aman Vij from Astute Investment Management.

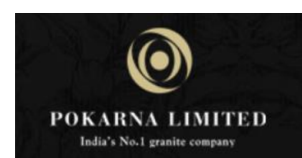
**Aman Vij:** My first question is if you can give an update on the domestic market, right?

**Paras Jain:** Yes. So on the domestic market side, as I have been telling since the last call, we've started penetrating the K&B part in India market. So we are there in around 120 stores right now in India. We've also done some large institutional projects like Adobe, Salesforce, JPMorgan. And we're doing many more such projects currently as well.

And apart from that, we've executed one of the other large technology IT park coming up in Hyderabad. So while the sales are still in single digit, but I think the ramp-up has been good on the institutional side of the business, and we would be taking aggressive steps to penetrate much more than what we have done in the last few years than what we'll be doing in the next couple of years.

**Aman Vij:** My second question was it was heartening to know that 15% of the sales are coming from new products. So do you think for FY '24 and FY '25, this number can be as high as 30% to 40% also?

**Paras Jain:** Yes, I think that is the strategy basically that one of the ways to insulate is to bring fresh products, new products, never seen before products to the market and maintain that leadership position. Like I would invite you to look at our designs, which are on the website to and then compare to what our competition in U.S. is doing.



And of course, India, there is not much of a design trend, which is there to compare that's the reason I'm giving you a reference of U.S. and probably some European markets to understand how different we have gone on the design side of it. So we believe that design is the innovation for the future, and that's where we are focusing on -- and it's quite possible that numbers can accelerate and become double, but we have to take it at a time. So -- but we are pretty excited about what we are doing in the scope it has to improve the business and the realizations as we move forward.

Aman Vij: Sure, sir. And what was the utilization of the new plant?

Paras Jain: New plant is still -- because of the demand situation. If you remember last time also, we have said that it's close to around 50% to 60% bracket. But again, also one more factor, which we have to keep in mind is that as we introduce new designs, the cycle times are relatively longer because when we are perfecting the design and we are making some new product development, we tend to take more time to make sure that the product comes out good. So I think once the product stabilization period is over, this can be normalized to around 65%.

Aman Vij: Sir, can you give an update on this? There will be some anti-dumping duty benefits which we were supposed to get compared to peers. Basically, they were being imports -- more duties. So have we started seeing the benefits of that?

Paras Jain: See basically, what happened is that while, of course, we are at 0% antidumping duty and a 2.3% countervailing duty, the trade had typically around 161.5% preliminary duty coming on for the Quartz from India except Pokarna. In the final Department of Commerce took a different approach and reduced that duty to around 3%. And the U.S. petitioners have actually gone to the court saying that this could not have been allowed. So actually, the spillover demand or whatever we call it, of this antidumping on other participants has not been seen by us yet because department reversed its decision, but then the matter is now in the court of International Trade there in the U.S.

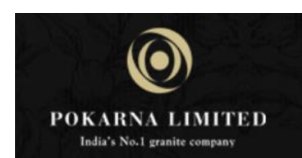
Aman Vij: Final question from my side. Any big customers that we have added in the last 6 months to 1 year?

Paras Jain: Yes. As I just said that we've added certain new geographies. So I can't name the customers for certain specific reasons. But I think some of these customers are prominent names in those markets, and we believe there is a solid potential in the years to come.

Moderator: Next question is from the line of V. P. Rajesh from Banyan Capital Advisors.

V.P. Rajesh: Okay. So my questions are primarily on the overseas market. In fiscal year '24, when do you think these markets can contribute to your top line?

Paras Jain: What do you mean by -- sorry, I didn't get your question because majority of our sales is to the overseas market. So...



V.P. Rajesh: Sorry. Sorry, that;s right. I meant non-U.S. markets.

Paras Jain: Okay. Okay. Non-U.S. market. Yes, definitely. The non-U.S. market, what I'm talking about right now, of course, there will never be close to the U.S. market for the obvious reason. But then they have a good potential to probably diversify or insulate a bit of concentration risk.

V.P. Rajesh: Right. So in this year, you think it will be more than 10% or more than 20% on its mix?

Paras Jain: I think to begin with, probably it would be close to between 7% to 9%. And then as we mature the relationship, probably it has the potential to get into the double digit.

V.P. Rajesh: Okay. Wonderful. And then the strategy here is to still go with the basic product? Or are we focused more on the value products in these markets?

Paras Jain: See majority of the new designs what we are developing, I think which we are -- over 80% of the new designs, which we have launched are at the high end of the pyramid. So the basic product is only just to make sure that you are able to give a complete bouquet to their customers, and they're not going here and there to meet certain part of the demand. The predominant focus now is to get into a value-added, high-end products. But then there would be sometimes where we will have to oblige for obvious business reasons and look at the overall picture than being just influenced by a particular thing.

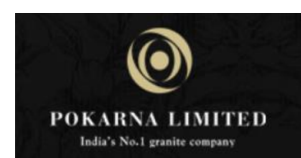
V.P. Rajesh: Okay. So it's fair to assume that in these non-U.S. market, majority of the sales will be coming from the value added.

Paras Jain: See, basically, overall, we are focusing on value-added process -- products, not just U.S. or non-U.S. But then as you enter this particular geography, you will have to go with both the portfolios. As the relationship and the market matures, we typically get into the high value-added products. So what I said by high value-added products, predominantly focus would be on the U.S. to begin with because that's where the large consumption is. And as the relationships in the other market increases, we will get the value-added products also moving out there.

V.P. Rajesh: Got it. Got it. And this non-U.S. markets, do you have the same kind of duty issues that are there in the U.S., just curious about the structure of these markets.

Paras Jain: No, because I don't think any of these markets where we currently are has a manufacturing base of any of the Quartz manufacturers. So the dumping or the duty typically arises where there is an impact to the local producers. So we have not seen any tariff issues to our knowledge. And at least in the recent past or in the history, there has never been any tariff on those -- these markets unless there is some government trade-related issue coming out. Otherwise, there is nothing specifically which we are aware of.

V.P. Rajesh: Got it. And lastly, do you see Chinese manufacturers also being competitive in these new markets?



Paras Jain: In the other markets you are saying, the non-U.S. markets?

V.P. Rajesh: Non-U.S., yes. Yes non-U.S. market.

Paras Jain: Yes, yes. So basically, see China is everywhere, where is not China, you just tell me?

V.P. Rajesh: Right. But what I am thinking, how competitive are they – how competitive are we to them?

Paras Jain: No, we will compete with them, not just on the pricing. We compete with them on different things, whether it is quality, relationship, service, the design. But then there are some products where we will also have to take a burn because we are going as a portfolio, there are some products where we believe that Chinese are far competitive than we are. But then overall, to maintain the relationship and looking at the larger picture, we do sometimes compete with them.

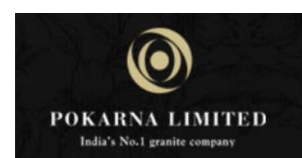
Moderator: Next question is from the line of Anuj Sharma, from M3 Investments.

Anuj Sharma: Yes. So my questions are on the higher end and value add. So in terms of demand scenario, is the lower-end product in higher demand? What is with the higher-end design products? That's question number one.

Paras Jain: Okay. So basically, today, we are seeing that the higher end of the higher end seems to be relatively catching up than the lower end completely. But then a lower end is also moving, but it's not getting an incremental growth. The lower end is moving because with this inflation and all that in place, the builders typically will have to honor whatever they have put in their programs as part of their offering. So that is lower end is predominantly moving in commercial and is multifamily type of business. But I think what we are seeing and what we are focusing is on the higher end of the parameter in terms of realization.

Anuj Sharma: Okay. Okay. So then if the demand is strong, then it is just a matter of us introducing more and more design. So what does it take for us to ramp up the number of designs. So is it a function of the engineering or designer capability? Or we are working at the maximum range which could at this point of time?

Paras Jain: See, Pokarna has over 10,000 design in its portfolio. I think very few companies in the world would have that type of library. So we know exactly how to produce the design in the shortest possible time. So even if you look at our recent introduction of our 20 designs. So introducing new designs is not a big challenge for us with the experience what we have gained. We have introduced some designs in as low as 2 weeks and sometimes it will take 2 months as well. So but we have a very strong and dedicated R&D team at both the units and we work constantly with our partners across the world and we developed the design based on the inputs, what we get because design is basically influenced by what is happening to the decor world outside, what colors are moving, what color people are liking, what is happening in the appliances industry, what is happening to the interior decor industry, what paints are getting sold and what are the natural stones which





are short in supply.

There are several factors which are taken into consideration before developing a design. So -- but I think let me conclude saying that we have a robust R&D plan in place and it's backed by right people.

**Anuj Sharma:** Okay. So if I were to just rephrase it -- if I were to just rephrase it, we assumed that we have designs and the outlook is good so it is just a matter of time that, that segment starts increasing and -- from 15% to much higher level?

**Paras Jain:** Yes, that's possible.

**Gautam Jain:** I just would like to add that when we do the complicated designs, the cycle time is more for those designs. So that's the only bottleneck that will have less productivity but more realization.

**Anuj Sharma:** Okay. And one last question. Probably this question you were answered in the past, but just see our Granite at one point of time, we used to do over Rs.150 crore, and it's Rs.60 crore right now, Rs.57 crore, Rs.58 crore. Do you believe that there could be any scenario in which we could cross Rs.100 crore and higher? How you think we are operating at the best range possible? Some outlook on the Granite will be helpful.

**Gautam Jain:** Let me give you a proper brief. Today, the market has moved to Quartz throughout the world. And the Granite demand remains for more of outdoor use. And unfortunately, in India, we don't have any new color coming up in the quarries. So there is no newness in the product range. So I don't think there will be a huge growth possibility. And then again, we have to look at the profit margins on whatever business we do. So the competition in Granite is largely in this low-end products with multiple quarries operating and multiple factories coming up in Indian market compared to the last -- when we were doing in those range of numbers.

So I don't think it will be feasible or it will be profitable to look at that kind of number because even if we do the number, there will be no profitability. So we don't like to get into a business where the profits are not possible.

**Moderator:** Next question is from the line of Nitin Gandhi from KIFS Trade Capital.

**Nitin Gandhi:** The four markets which you have added, can you -- based on the product designs and other studies, what do you think could be the potential size of opportunity for us in each of these markets?

**Paras Jain:** See all the markets, which I recently mentioned to you are the markets where Quartz penetration is on the higher side. So these are not the markets where you still see the laminates or natural stone being involved. So these markets have a very higher level of Quartz acceptance. So there are, I think, a couple of markets are actually far in terms of their reach than the couple of other



markets. So I think as I said to one of the previous questions, at a fully matured relationship, we think between 7% to 9% can be something on our overall revenue is what we can add there. And as the relationship goes to the next phase, we'll get into double-digit turn to our total sales order.

Nitin Gandhi: No, no. I'm checking the opportunity size over there not the...

Paras Jain: Basically if you look at the opportunity size, those markets could be anywhere between overall what they are importing in terms of between anything between \$50 million to \$75 million. And typically, we are expecting that out of that \$70 million, we should be able to get at least a couple of million dollars in each of those 4 markets.

Nitin Gandhi: And assuming 30% business coming from value-added product, 2- 3 years down the line, what could be potential revenue from our total capacity as on date?

Paras Jain: Depending if you go back to our previous discussions on it. If we have a right product mix, in terms of 2 cm, 3 cm thickness, right realization mix in terms of high-end designs getting at least 30% plus number into our overall realization and then the cut-to-size business, which is the value-added business, what we talk about. We also make at least 20% of the overall sales realization, then we believe that between Rs.850 crore, to Rs.1,000 crore is something which we can achieve if all these metrics are on dot.

Moderator: Next question is from the line of Dixit Doshi from Whitestone Financial.

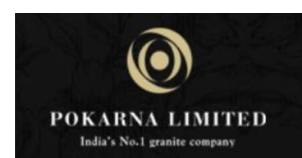
Dixit Doshi: First question is regarding the debt repayment plan. So -- let's say, in FY '24, what kind of repayment we are targeting?

M.Viswanatha Reddy: So last year, actually, we paid Rs.57 crore, Rs.39 crore of long term and Rs.17 crore of short term. And this year, actually minimum liability is Rs.45 crore, but we do and actually more than that.

Dixit Doshi: Okay. And my second question is, so obviously, right now, we have enough capacity, but let's say, over the next 2 years, 2.5 years at some point of time, we'll reach the maximum capacity utilization also. Let's say, next, whenever we decide on the capex, is it fair to assume that it will be far lesser than what we did the last capex and also the time line will be much shorter than the last capex.

Gautam Jain: See I would like to tell you something in this product profile. Capacity utilization is subject to market demand of the products that we make because the cycle where time varies from product to product. And regarding the capacity expansion, also we'll never be able to tell you precisely when are we going to do capacity expansion. Is it going to be after full utilization of the capacity?

Maybe intermediate, we do some new expansion, which is required by addition of some equipments to introduce new products in the market. So whenever there is a frozen plan for addition of capital equipment, we will let you know. But then it will all definitely depend from time to time how the product demand changes. If the higher end -- the high-end product demand



is more, then maybe we do some additional equipment required to produce those kind of products.

**Dixit Doshi:** Okay, okay. So my question was because when this new capex started, there was almost a 3, 3.5 years of gap where our old plant was at the full capacity, and the new plant came almost after 3, 3.5 years gap. So can we avoid that in the future, let's say, so whenever, let's say, brownfield or new equipment needed, we can do it in much shorter time than what it has happened previously.

**Paras Jain:** Yes. I think we have to keep in mind, as Mr. Jain just said, that we are actually driven by market and customer as to what they are asking. So there are different options in the way we expand today, either do a capacity -- complete capacity expansion, which will add typically to your square footage going up or do design enhancement capability where your realizations go up.

So in the past, we had relatively -- probably a little stretched time because of COVID-related challenges if you see, there was COVID also in between. So you had -- and everything is coming from Italy and there are several agencies who are tied up in setting up a plant of this size and scale, which is world's one of the largest single line today in the world.

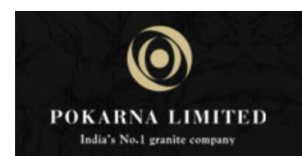
And that was one of the reasons as to why a little stretch happened. And secondly, definitely that the new -- infrastructure, what we have developed in Hyderabad is actually equipped to add to the second line equipment immediately. So today, if we have to order something and we don't need to do any development of land and building.

Land is ready, building is ready. We just have to get the equipment and put it. So the gestation period from the time we order under the normal conditions to the time we start, would be far lower than what it would have been otherwise in the normal circumstances.

**Dixit Doshi:** Okay. And one last thing on the -- so you mentioned that it takes some time for reordering in the newer market. But -- so we have added Russia also. So -- and just to understand the many of the U.S. and the European guys may not be exporting to the Russia. So can we get a slightly faster benefit over there? Or it's a normal market?

**Paras Jain:** I would say it would be late because what is the transit time from India to Russia, it's over 4 months now. So by the time I send a material to the by the time the customer is receiving the material it is over 4 months, over 4 months. So imagine, after 5 month he will receive material -- he has to introduce the material in the market, do some marketing, get the feedback and reorder. And again, he puts an order back to me. By then we get the second consignment of the material, it will be a complete 1 year.

So actually, while there is good potential in Russia market, the challenges are shipping today that there is no direct lines which are shipping to Russia. You have to go via Middle East, and that takes unbelievably long time.



**Moderator:** Next question is from the line of Devender Singhal from Kotak Mutual Fund.

**Devender Singhal:** Paras, my question to you is that if you look at the quarters till December 2021, never in your history, you have gone below 65% gross margin, okay. And this is despite the fact that the new designs are just coming into the market. Now what you're currently saying is that the current gross margins, these new designs are likely to have a much higher realisation. I understand that if they have a different time to manufacture but my understanding is -- is my understanding right that the gross margins in these products are much higher than what you normally had with the earlier products. That is question number one.

And Secondly, that being so, then why are we not looking at the gross margins moving up significantly higher. When you yourself also are looking at, do you now this new range getting a 15% current allocation moving up to 30% going forward. So I mean, whatever we have talk to customers, your competitors, they are saying that the designs are wonderful and these are nowhere being presented by anywhere else by any other competitor. I mean what are we missing here? Can you please elaborate? And I'll come to my second question later.

**Paras Jain:** Yes. So basically, you see the gross margins definitely, if you look at just on the basis of cost of raw material versus the sales, the higher end realization will be definitely 65% plus. But then what happens is that it takes time to actually establish the product completely. The designs as you yourself said done that you have done a check with the competition and competition itself is agreeing to the fact that Pokarna's designs are unique and are never seen before in the market.

So it does take some time for us to actually roll out those products and see the complete potential. So but if you look at on a excel sheet, yes, definitely, the gross margins on the high-end designs would be disproportionate to early higher than what we see on the lower end of it. But then the cycle times are relatively longer. So we are not able to completely see the benefit translating out at the EBITDA and the PAT level.

But I think on the gross margin level, yes, once the complete range is out which is still not because when we launch such type of design, there's a huge sampling program, which happens, which also means that we are investing a significant amount of money in developing sampling. That's also part of the entire margin profile.

So that is also an element of impact on it. Once I think those items get neutralized, initial launch expenses get adjusted. The real picture would come up. So I think wait for a quarter or so, you'll really see how the difference of realization is actually coming out.

**Gautam Jain:** I'd also like to add that in the market, you cannot just put only high-end products without fulfilling the -- all sets of customers that are available. Every customer has to keep a variety of products, low -medium- high so when we introduce this new high-end products, it takes a little time for customers to go to the architects, go to the builders and convince them that these products are very good. And if the cycle time is actually longer it can take from 6 months to 1 year by the



time you -- your numbers go up because the demand will come up once it is being used and people see the products in use. So we must have little patience, and we have to have a proportionate mix of the product range.

**Devender Singhal:** Sir, I am there with you, and I totally appreciate this. Only -- from where I'm coming from is that your product mix is improving. The value add is now 15%, --compared to that is what it was earlier. So there is no reason for your overall realization to drop such a significant way that the gross margin dip by 1500 basis points in 1 quarter. So that is where I was coming from. But if you say that there have been a lot of samples also.

**Paras Jain:** I said at the beginning of the call also on this that don't look at this now as quarter specifics look at it as overall. If you look at the overall gross margins were 45, now we are talking at 40. So we are admitting that there is a 10% decline that has happened for various reasons. So when you look at the quarters to come, you will see the full benefit of gross margins getting restored once we see the complete cycle out of the new products and the launch expenses and everything are neutralized.

**Devender Singhal:** So on one side you are asking us to look at a very -- on a yearly basis, but on the other side, you yourself are saying that we should look at things quarter-on-quarter in terms of how things are panning out..

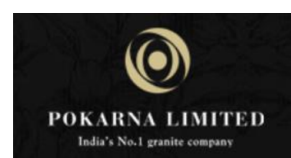
**Paras Jain:** That I said was relative only to the revenue thing because somebody had a very specific question what would be the annual revenue. So I said, I cannot give you an annual revenue. So I'm really currently focused more on margin protection than doing a distressed sale, of just going around selling things. So I think let's put the context right there.

**Devender Singhal:** Sure. My second question is on the domestic side. And if you -- can you help us in terms of what is the kind of sales we can expect in the next 2, 3 years, let's say, FY '25? This year, last year was the year when you were seeding it. This year, things could stabilize and in FY '25, is there a number we could look at in terms of these numbers for the domestic side coming in from contract?

**Paras Jain:** Yes. So basically, we do have a plan as to what we want to do in the next 3 years. So our target is that in the next 3 years, we want to at least have 10% plus of our revenue coming out of domestic market. So we are working on it aggressively. I think next year or plus, you will see that we are towards that.

**Gautam Jain:** In percentage terms, I can tell you our targeted business should be doubling domestic market business every year. That is a very minimum growth that we expect to do from the existing business.

**Devender Singhal:** So sir, is it possible for you to help us with the absolute number, let's say, in FY '26, is it a Rs.50 crore number possible or a Rs.100 crore number possibility?



**Paras Jain:** So if we -- as I said, if we are able to get to Rs.1,000 crore number there on the overall business, at least Rs.100 crore should come from our domestic number is what we are targeting in the next 3 years.

**Devender Singhal:** Sure. And what my understanding from the previous interaction is that these margins in this business would be far better on the EBITDA side than what is this for the current business. Is that the right presumption?

**Paras Jain:** Because here -- it also depends upon what type of channel you're penetrating. If you are penetrating it, because there are different channels in -- even domestic markets. You have a Retail segment where you're doing a complete end-to-end solution. And then you have your Institutional segments where sometimes you do end-to-end solution or sometimes you are just part of the -- part of the process that you just apply the raw material and then they do the processing.

So if we are doing more of a Retail part of it, the realization would be better because it's a service component, which gets added. But if it is a pure slab sale, if compared to the value added, it will be lower.

**Devender Singhal:** But it would still be better than the overall company margins?

**Paras Jain:** In some pockets but not completely.

**Moderator:** Next question is from the line of Kushagra Bhattar from Old Bridge Capital.

**Kushagra Bhattar:** A few questions. One is, so if you can give some color on the market share and how the market share is. Because overall Quartz import data is not very optimistic. And there seems to be something -- I mean, you already mentioned value-added segment doing well and Pokarna is large into the value-added segment. So if you can size the market, give some market divide between mass products and value-added segment. And how Pokarna's market share has stood between the two broadly?

**Paras Jain:** If you really look at how the entire portfolio of around \$1.5 billion of U.S. market imports annually. You would see that in our estimate because we don't have complete access to what each of it is coming from different countries. Today, it's not just India, it is Philippines, Thailand, Malaysia, Cambodia, Indonesia, apart from U.S. Europe, U.S. grown manufacturing, Turkey and some part am told that coming up in U.S., maybe some in Mexico, we don't know. So there are several -- but I'm looking at a \$1.5 billion total market -- import market on the absolute number basis.

So in that, typically, our guesstimate is that around 50% of that is actually it is currently, the lowest bottom product side of it, where you have mass market consumption products, which are typically a substitute for Granite like as Mr. Jain said, in the recent past. Granite has given a lot of market share to Quartz because of various reasons. One is also because the price points were



similar to what Granite was in -- the previously offered. And of course we're offering a superior product, better to fabricate, better to use, so that helps again that.

And out of the balance, 50%, what is left, we believe that around 30% is again the middle segment of the portfolio. And 20% is the higher end of the entire spectrum. So our overall share currently, if you look at in this \$1.5 billion of import. We are talking about Rs.700 crore coming out of India -- from us there largely. So we are talking about, let us say, about -- around 5% of the total imports is what we are saying, we are a part of that.

So we are not in that rat race of giving the quantities, we are now focused more with the new capabilities what we have in our Unit 2, which is in Hyderabad, where we produce a very high-end value products. Our focus is now actually to take a larger space in that 20%, which is a high-end value product currently and take a major share out there with our partners.

**Kushagra Bhattar:** Got it. So effectively to understand this since you are not present in the 50% right, your targets, your target segment is 50% of the other, which is middle market and the higher end. You are essentially around 11%, 12% of the market share.

**Paras Jain:** We are operating in that 50%, as Mr. Jain said, that we have to look at the entire picture and take the largest shelf space from the customers. While we will continue to be there at 50% we will definitely focus on the 30% and the 20% and focus more on that 20% so that overall realization improves.

**Kushagra Bhattar:** Got it. Sure. And second, can you also give some color in terms of your channel partner relationship because just trying to -- and also if you can give some numbers around it, for example, how many channel partners are there, what's the concentration like top 5 will be forming majority of the sales. if yes, how much? And this year, particularly -- or sorry, in this quarter, particularly and going from here on have you sort of seen consolidation of your channel partners giving you more business, so you have become larger in that overall ecosystem.

**Paras Jain:** See it again depends upon customer to customer because every customer has different relationships. But I can touchwood tell you that the relationships what we've established several years ago continue to be the strong relationships. But every time you compete on the design, so if you're design -- because like it is annual introduction for some companies, it is a quarterly introduction as well.

So if your designs are far better than others, you typically end up getting a larger portfolio of that season. So while I cannot give you the absolute numbers for reasons because I see many times, our competition also joins the call, so I'll not be able to talk much about it. But I can tell you that relationships are intact. New relationships are getting added and we are up for exciting times.

**Kushagra Bhattar:** Right. Any number you would like to call out like you're working with ex number of channel partners or top five...



Paras Jain: Basically – yes, we work with double digit, I could say that.

Gautam Jain: I can only tell you that we continue to work with each and every customer that we started the business with from the day 1. That shows how deep our relationships are. And today, we can tell you proudly that every company recognizes that we focus more on quality of the product, innovation in the product and quality in service, and that's what keeps us – keeps the relationship going more stronger day-by-day. So now with the market scenario, we should never forget that – we cannot just feed the customer what we want feed with. We can – we have to always continue to satisfy customers with their request on the product that they want to satisfy their end customers. So it is a mix. We have to keep on continuing with this mix.

Kushagra Bhattar: Got it. So just sorry for harping on this point. Just last point, question on this is -- you would have also grown because you maintained so good relationship over so many years, you would have also grown with few of them becoming really large. Any percentage would you like to call out like the top 5 channel partners would be forming 50%, 70% of your revenues?

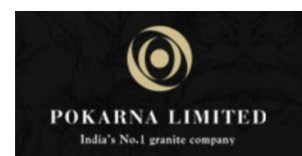
Paras Jain: I think Kushagra, I gave much more than I could have given with everybody including our competition...

Kushagra Bhattar: Last question, on the competitive intensity, I remember you mentioned last time that you have seen some capacity building up, right? So just trying to understand like how do you see -- or how much of the capacity build up you're seeing in the market? And because the differentiation also lies in the design, how tough or easy it would be for someone to copy the good selling designs and make it a little more commoditized. How are you seeing that thing panning out?

Paras Jain: If the capacity buildup is happening as the industry matures and grows I think every country would have the capacity addition for any product line and Quartz is no different. We are seeing capacity buildup happening in India, we are seeing also it happening in other parts of the world and even in the U.S. But then I think -- if you look at players in the market, the serious players in the market, there are really very few who actually have survived through, so they can take off the industry cycle. Because I think most of the capacity buildup is happening at the lower end of that 50% what I was talking about to you.

And getting into the 20% takes really serious efforts and it's a journey, you have experience it. No manufacturer can give you on a plate saying that, okay, you can produce this from tomorrow. Even what Breton gave us, we have taken the journey from what they gave us to what we did. There is a complete paradigm shift. So it takes a lot of time to develop a product, train the people, get into the market. And above all, you have to -- you should have a taste to understand what the product -- what product would sell in the market. So it's not like a porcelain business that you pick up some design and you print and just sell it.

So there are a lot of ifs and buts and industry is also getting a lot of new technology coming up. So handling the technology, having the right set of people, right set of customers to buy that





product, it takes time. So I don't think we are debted by competition growing up in the geographies we operate, whether on a manufacturing or the selling side effect. So I think we are pretty good on that.

**Moderator:** Thank you very much. Ladies and gentlemen, that was the last question for today. I'll now hand the conference over to the management for closing comments.

**Paras Jain:** Thank you, everyone. I look forward to catching up on Q1 FY '24 call. Thank you. Have a lovely day.

**Moderator:** Thank you very much. On behalf of Pokarna Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

