



15th November, 2022

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

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

Dear Sir/Madam,

Sub: Transcript of the Earnings call for Q2 of FY 2022-23 pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

In reference to our earlier letters dated 7th & 8th November, 2022 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Transcript of the Earnings Conference Call held on 10th November, 2022 is enclosed herewith.

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

Thanking you,

Yours faithfully,

For **Somany Ceramics Limited**

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

Encl: As above





“Somany Ceramics Limited
Q2 FY ‘23 Earnings Conference Call”

November 10, 2022



MANAGEMENT: **MR. ABHISHEK SOMANY – MANAGING DIRECTOR –
SOMANY CERAMICS LIMITED**
**MR. SAILESH KEDAWAT – CHIEF FINANCIAL OFFICER
– SOMANY CERAMICS LIMITED**
**MR. KUMAR SUNIT – ASSISTANT GENERAL MANAGER,
FINANCE – SOMANY CERAMICS LIMITED**

MODERATOR: **MR. NAVIN AGRAWAL
HEAD - INSTITUTIONAL EQUITIES
SKP SECURITIES LTD**

Moderator: Good evening, ladies and gentlemen. Welcome to the Somany Ceramics Limited Q2 FY '23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Navin Agrawal, Head Institutional Equity at SKP Securities Limited. Thank you, and over to you, sir. .

Navin Agrawal: Good evening, ladies and gentlemen. It's a pleasure to welcome you to this financial results conference call on behalf of Somany Ceramics and SKP Securities. We have with us Mr. Abhishek Somany, Managing Director; along with Mr. Kumar Sunit, AGM Finance. We have the opening remarks from Mr. Somany, followed by a Q&A session. Thank you, and over to you, Abhishek ji.

Abhishek Somany: Good evening, ladies and gentlemen. Welcome to the earnings call. I think the next, we also have our CFO, Mr. Shailesh Kedawat online with us today. To begin with, just to give you an industry outlook, the last quarter has been very volatile in all fronts. We've had a muted market demand that resulted in a flattish growth, in fact, slightly negative. This was due to various reasons, specifically because of the supply chain disruption in Morbi.

We had a one-month outage. We were not participating in that, but there was a huge issue with the truckers -- there was hardly any material going in, so there's no truck were available. So we had a good 15, 20 days of disruption in terms of volume because of that. We also had various other market pressure in terms of rain, et cetera. So those are normally generally there. So nothing specific. But otherwise, on a general front, there's been a muted demand from the market. One can't point a finger as to why. Geographically, I think North South, East, West, all of them have been impacted.

We're being the strongest in the north as far as our volume is concerned, obviously, it was slightly a little less there, but otherwise, the disruption was every year. It was also coupled with a clear slowdown, which we are seeing in terms of interest costs rising because of that, the real estate segment is going to get impacted. And I think that is all inflationary with the interest rate rising abroad and in India. That is going to keep being heavy on us for the next couple of quarters, maybe six to nine months or more.

The green shoots of course, there were some very, very positive green shoots this quarter, which we will see the positive signs of that coming in the next following quarters and the year. That was that there were three things which happened. Freight rates have gone very, very low compared to what it was last year, which is the export rate case, the ocean freight rate. Coupled with that, we had a huge antidumping duty slapped by Europe and Turkey. And coupled with that, we've had huge inflationary pressures of gas costs, I think way beyond what it rose in India in Europe.

So all of these three things is opening up Europe has a huge potential for Morbi players and this time also maybe for the organized players because a lot of the Turkish companies and the

European traders are wanting to come and buy from India. And India has virtually no antidumping duty. We were expecting a high antidumping duty, but we then managed to get it at 7% only, which is negligible. That has been clearly off set by the freight costs going down. This is the industry scenario. Morbi is still not completely back about 150 players of intact. They'll probably start opening slowly now. Gas has not gone up. In fact, there's been a little bit of a rebate in gas in Morbi. Otherwise, gas cost overall has gone up in the last quarter. So even they are seeing pressure on volume, but they're seeing a good amount of uptake in exports.

And what we said initially, the export should grow to about 17,000, 18,000 from 12,000, 12,500 from last year. Now coming to our numbers, our numbers, as you can see, there's really no point looking at the H1 numbers because last year, Q1 was muted because of the pandemic. So let's look at the Q2 numbers. We've had 9.3% growth as far as sales is concerned. And we've had a flattish quarter as far as volume is concerned. EBITDA obviously has been hit the maximum pressure on that has been basically on the power and fuel. That's the single biggest item, which has hit us.

We've not had any price increases ever since the beginning of the year. So that has clearly affected the margin. And because volumes didn't go up, that further affected the margin. In fact, we ran our plants looking at 100%, looking at the opportunity where Morbi were short, we should be able to push more materials. That also did not happen in the same robustness as we thought it could be. As a result, if you could see a lot of our cash has been moved to inventory. So our inventory has gone up from 34, 35 basis 45 odd days, give or take a take a day. EBITDA you can see, is being hit as a result of the low volume and also in terms of gas.

The positives are that we've been able to move a lot of our units to LPG alternate fuel. So in the quarter, one by one, we moved from one unit to 50% of the units now on LPG, and it's still work in progress. By the end of November, we would have approximately 60%, 62% of our units. On LPG, which will definitely check the gas cost and LPG is significantly cheaper today than natural gas.

To give you a flavor and preempting the question, the overall gas price in Q2 was up INR 5 from last quarter and more than -- almost 100% from last year's same quarter. Current prices, of course, have come down by a couple of rupees because of what Morbi gas rates have gone down, the BPCL, GSPCL gas gone down. Next quarter, we will see further reduction because oil has also come off and our LPG also should give us benefit. So our northern gas price was about 65, Morbi was also 65 and South was 75.

Currently, that's come off and it's currently hovering around the INR 60, INR 62 figure, which we believe will go down further. During the course of this quarter. Sales have also -- in October, we had a muted October that was expected because of Diwali, Dussehra and various other festivals, which all fell in one month. So that was again expected, coupled with the low growth any which way, the low demand any which way. So October was also muted October, but like I said, it was expected. So hoping for a better November and December in terms of sales, and also in terms of gas pricing, although that would really show full results in the last quarter.

We have been managed to secure some quantities what we talked about last quarter in the south, which the current quantities, we have been able to tie up about 1.50 Lakh square liters per month in the south and the same amount of quantity in the north. So going more geographical, and that's the rationale, which we discussed last time about why we divested in one of the Amora plants is because we wanted to go more regional. So that quantity has gone more regional, although it's an incremental quantity. The ceramic and the GVT is pulling away from PVT. PVT is down from last year's same quarter, 34% to 28%, whereas GVT is up from 28% to 33%, and ceramic is also gained from 38% to 39%.

Sanitaryware bath fitting, like I said, the entire market was muted. The sanitaryware bath fitting has also shown only a growth of 3% over the quarter over last year same quarter Y-o-Y. So we've had 2% growth in sanitaryware and about 5% growth in bath fitting. But this sector is looking good, and our expanded capacity of bath fitting is already with us. I had mentioned that it will start in October. So that's already started. So that should start getting results this quarter and also last quarter.

The average capacity utilization for tiles has been about 88% in last quarter. 45% in sanitaryware, sanitaryware generally quarter 2 is muted because one line shuts because of rain every year, it's the same thing, faucet has now moved to 93%. Our brand spend has remained at approximately 2% of revenue. It should be at the similar level. In fact, from today onwards, we have a huge campaign breaking out on TV, and you will see a lot more of us even there. Otherwise, the 360° campaign has been flagged off from the end of last quarter.

Our net dealer addition for H1. Now this I can talk of H1 because it's not financial. That has been approximately 150 dealers, which have been net added. As I mentioned, price increases, we did not take anything more than what we took in June, early July, about 2%, 2.5%, which was again up till June after that last quarter, we have not taken any prices. Forward statements, we still don't have any guidance on margins as I mentioned, because it's still extremely volatile as far as gas pricing and demand is concerned, but we definitely can say that the gas prices have come under check, and we should see a softening gas price regime for the next six months at least.

Sales growth, we are still confident that we should be doing a high double-digit growth between 15% and 20% in the high teens. So that is still on card, and we're looking forward to a better five months because these five months are clean five months without too many holidays, et cetera, which disturbed a lot of the H1. So this is my overall brief on the Q2, and I will open the floor to Q&A, please. Thank you so much.

Moderator:

The first question is from the line of Achal Lohade from JM Financial.

Achalkumar Lohade:

My question was with respect to the supply side, has there been any impact on Morbi took a shutdown of one month in terms of the supply from Morbi eventually, did it really lead to any price hike by the Morbi player or not at all?

- Abhishek Somany:** So the outage which they took was to not get any price hikes, but they were wanting to create more demand in the market and also to check any further reduction. So obviously, that has paid off from the point of view of no further reduction is taken place in prices since August, but they never did it for any price hikes. And as far as supply is concerned, all our joint ventures and all our partners, which are the partners from where we buy have all started their production, an outsourcing partner.
- Achalkumar Lohade:** Okay. So the JV plans were working, but the.
- Abhishek Somany:** So the JV plant also, like I mentioned, we were not part of the outage of the JV part also were working till about 15th to 20th of August. But after that, we had to take certain parties over there or shutdown there for the last 10 days because the vehicles were just not available for transportation. So I think they are arm twisted the truckers there do not give us material. So although we did dispatch the good weekend, we also had certain issues in production, but that was more purely because there was just too much pile-up of stock because the supplies are very little from Morbi due to truckers being not available.
- Achalkumar Lohade:** So if I think given we will have inventories across our warehouses, branches, et cetera. This supply from Morbi units through these warehouses shouldn't really have any impact on the sales volume for this quarter, right? I mean I can imagine that there will be being up the.
- Abhishek Somany:** We have enough material, we have enough material. So that's what you are asking, I get that you're asking because we have enough material.
- Achalkumar Lohade:** Yes. I mean what I was saying, you gave one of the reasons for the weak volumes was the supply chain issues from Morbi in terms of truckers...
- Abhishek Somany:** That was only because of August, we probably would have had a couple of percent of growth, but otherwise, the demand was muted. So that problem, we will not have, but the demand is still muted. So that 10, 15 days of outage was there for everybody.
- Achalkumar Lohade:** And Abhishek ji, just one more question on the demand side. If you look at the real estate launches by the leading developers they seem to be doing extremely well. So what I'm trying to assess is that where is this weakness suddenly coming from? Is that just the interest rate? Is there something is opening the demand, weakness and how does it change it makes a month two or whatever?
- Abhishek Somany:** As I can't put a finger as to how it is coming. All I can say is that -- at the end of the day, the real estate doing well is a great time for us, but then we start getting utilized for new production, new applications only a year, 1.5 years, 2 years after the new launches. So -- and anyway, we are not very affected with the real estate directly because we're not -- our revenue does not go too much into real estate, but I was talking more from an industry perspective also, we Morbi is very, very exposed on the real estate.
- So clearly, they're seeing a slowdown over there, because new launches and people are waiting to start building or waiting to start renovating is where we are seeing a slowdown. And as far as

real estate is concerned, with steel, cement all of that very up, there is a little bit of a delayed supply which they want. So their Morbi seeing a slowdown. So overall, there is a clearly a slowdown. But really, I can't put a finger as to why I can keep digging analogies and keep making excuses that it was a rain or it was this or that -- but that happens in the year. There's no big deal. Clearly, Morbi outage was something that did affect everybody, but that was also frankly speaking, kind of welcome if it becomes an early feature, all of us can then follow through and shut down plants or maybe 15, 20 days and take our routine maintenance then rather than taking adhoc maintenance.

This time, we were caught off that because the truckers were automotive. So overall commentary is that clearly, in the building material sector, if you see other people's results also, not tie but others, there has been a muted volume demand across the board.

Achal Lohade: And one more question with respect to the LPG, you have given a mix. But if you could talk about the -- why not propane, is there any issues in operating propane in terms of the quality or impact on the time, etcetera, and the cost for LPG, what is the price, effective price for SCM and for propane and for gas?

Abhishek Somany: So propane and LPG pretty much have the same thing is that in propane comes in large cylinders, therefore, therefore, you need a lot more space and the peso licensing take it takes much, much longer. LPG is not much, much weaker because they come in smaller, there is an alternative of getting that in smaller bottle, and therefore, we move to LPG from a time-sensitive point of view. There's no point getting propane 100 down the line. The infrastructure in the licensing is appropriate LPG, we were able to do very, very quickly. As far as two of our plants are concerned, they are running on propane because we already had an infrastructure there.

So to answer your question, today, the gas price is approximately standard INR 65 a standard cubic meter, and if I adjust the kilo calorific value between natural gas and LPG, which is what we're using, that comes to approximately INR 50, INR 52 a standard cubic meter. It's a good INR 10 cheaper than natural gas. And it does not move in the same direction as natural gas in does not follow it. It's independent of that. So I hope I've been able to answer that question.

Moderator: The next question is from the line of Sneha Talreja from Edelweiss.

Sneha Talreja: With regard to you mentioned -- Yes. So just wanted to understand that you have mentioned about demand slow down a couple of times, and you are hopeful that in the next five months, of course, demand would pick up. Any signs that you're already seeing in the month of November? Or is it too early to talk about? Let's -- has now gone by -- any progress that you're seeing now?

Abhishek Somany: Yes and no. I mean it's just been 10 days in November. So the whole hangover of Diwali is just going away with the traders and specifically with Chhath pooja around the corner, so the Easter would also start. So obviously, it will be better than the previous month. But how much better, I guess, it's a little too early to say.

Sneha Talreja: Still, what is giving you the confidence of 15% to 20% is what basically I wanted to arrive back in terms of growth perspective in the numbers in terms of volumes that you mean?

- Abhishek Somany:** So I said growth in sales volume obviously, we're coming out of a low base last year. So H2 will be a higher base. So what's giving me confidence is that we've gone through many cycles with so many years in business, and we've seen some very poor years in the last 15, 20 years. And in every scenario, H2 has always been 10% to 15% better than H1 in the worst of years in the best of the year. That's the kind of average between 7% and 14% is the average, which is better than H1. So that's the kind of confidence taking some reference from what we've seen in the past. And we have seen fairly poor cycles in the past in the last 15 years. Every year hasn't been a great year.
- Sneha Talreja:** Sorry. So just for clarity, 15% to 20% volume or the revenue growth?
- Abhishek Somany:** Revenue growth.
- Sneha Talreja:** And secondly, you also mentioned...
- Abhishek Somany:** But Sneha on that volume will also move up because we don't forget we have put three plants. So we are going to utilize that. So volume will also move up decently, very decently.
- Sneha Talreja:** Double digit as what we can assume safely?
- Abhishek Somany:** I would think so, yes.
- Sneha Talreja:** Second question is regarding gas prices since you mentioned you're moving towards LPG, what is the kind of an average now that we consider for Q3, any rough sense that we can get? .
- Abhishek Somany:** Yes, of course, I can only say what we are -- the prices which we're getting now like I mentioned, 50% of our lines were converted to LPG. And it will go up to 60%, and that's about it. 40% will still be exposed to natural gas, blended average will be natural gas is at about INR 64 currently, and the LPG is about INR 50, INR 52. So you can take an average of 60-40 from that. I don't have a figure directly, but you can calculate.
- Sneha Talreja:** Sir we can do that. And regarding the falling gas prices with respect to the falling prices that we are seeing now across the board, whether it be the gas prices or propane that we've already seen, any price force that you anticipate Morbi will take that be also part because this has generally been a fairly competitive industry. So do we see any price force happen shortly or...
- Abhishek Somany:** Sure, Sneha. I don't think price falls will happen because on 1 side, export has picked up. The dollar is also giving them a lot of boost to lower rate, higher rupee dollar. So from that point of view, exports is really exciting and remind you, 50% of Morbi also has moved to LPG. So that kind of price decrease has already happened even there. If you haven't seen a price decrease now, I doubt we'll see a price decrease later.
- Because whoever had to convert to LPG has converted and whoever cannot -- maybe another 50, 80 players will confer to LPG. So that the natural gas price is going from 64 to 60 is really not affecting because Morbi already moved to that INR 52 price. But prices really come off. I don't think prices will come off of GST anymore. But I do hope and wish and think that the south

prices, which is were exposed on spot, should come down. And then and completely on LPG, but that should come down, and we would be moving back to that, but in our northern plant, these were the biggest delta is because I am constraints of space.

Therefore, I have not been able to convert the entire plant to LPG, which then exposed to a reasonable amount in gas. There, I'm linked, if you remember, we're linked to the crude 3-month moving average. And the crude last quarter, we were on the 3-month moving average looking at \$120, \$125 per barrel because that is what it was when the war started. And now we are looking at an INR 90 to INR 105 range and going down.

So my Qatar gas prices, which moved up from of INR 48 very sharply in 2 months, 3 months to INR 65 has already come off to INR 60. And I believe this will come up to INR 55 in the next 2 months because of the player moving average, which is now capturing a lower crude. So from a gas perspective, I'm really not worried unless a nuclear bomb goes up, that is a position.

Moderator: The next question is from the line of Aksh Vora from Praj Financials.

Aksh Vora: I just wanted to know, sir, can you throw some light on what are the underlying item and the first comment of not to account, you have mentioned that the company has invested INR 40 crores in the right issue of subsidiary for Moneymax Private Limited. Can you throw some light on the same?

Abhishek Somany: I'd let Sunit and Shailesh, either one of them take that question.

Kumar Sunit: Yes. So this is towards the INR 170 crores capex rental project, which board approved last to last quarter and it is in the process of commissioning. So the first promoter contribution by way of equity shares to the extent of INR 40 crore has been inputs, and that is what you are referring to, since it is 80% subsidiary. So 40, 80% of INR 50 crores comes to INR 40 crores which is subscribed as Somany Ceramics and another INR 10 crores, which is talent to 20% shareholder is subscribed to another manufacturing partner.

Aksh Vora: What is it regarding to I might have missed out earlier?

Kumar Sunit: Yes, you completely missed out because it is a follow-up of activity of the Greenfield project, which is announced by our -- last to last quarter in INR 170 crores Greenfield projects of large format, tiles would be produced in this plant. So yes, it will be a state of the manufacturing facility, which would be producing a very large format and slab size of tiles.

Aksh Vora: Also just wanted to know what would be your current capacity in tiles 73 MSM. And after the expansion that we are looking forward, what would be the capacity by the end of the year?

Abhishek Somany: So we are at 62 million, 63 million in meters of own production and we have 73 million excessive to capacity. As you know, 10 million square meters we buy from outsourced. That remains the same and is million 4 million, the max plant. So that 4 million, more or less 4 million will get added in second -- middle of the second quarter next year. So about July next year, this 4.5 million would be added, which would push the capacity up to close to 77-odd million.

- Aksh Vora:** Okay. And sir, what was the reason for low growth in sanitary and bath fitting? Because as I understand, we still have a low base in that segment. And probably, if I may not get it wrong, we could have seen some growth in that segment of probably because of the lower base. So...
- Abhishek Somany:** You are very right. It is a low base and I think it's just been a very muted quarter in terms of overall demand. I think the dealers were also extremely cautious of buying because of price decreases often price decreases across the board. So generally, it's been a muted and in the sanitaryware segment, barring a few industry leaders.
- Aksh Vora:** And sir, lastly, where do you see margins improving? When do you see margins improving? I mean, going by your comments, I feel like the gas price would be muted or coming down in the next six months. So can you see a slight improvement in margins going forward?
- Abhishek Somany:** Yes, logically, absolutely, yes, but it will largely depend on how much volume picks up because clearly, gas prices have come under case. So there the margins obviously from this quarter onwards would improve. How much they would improve I'm really unable to say because we're still extremely volatile.
- Aksh Vora:** Yes. But we can see an improvement going forward from here on?
- Abhishek Somany:** Yes, yes. For sure. Of course. I mean like I said, the gas price went up from INR 40, INR 50 to INR 64 literally in a quarter, and it's come off already by INR 45 and this LPG is only going to help us further. So we should be looking at another INR 3 to INR 4 decrease in gas prices overall. And next quarter, maybe a little more. And like Sneha had mentioned, would there be a lowering of pricing from Morbi that doesn't seem to be on the cards. So I think if you are able to maintain this price of sales and gas price start coming off, obviously, that will show up in the margin.
- Moderator:** The next question is from the line of Pranav Mehta from Equirus Securities.
- Pranav Mehta:** I wanted to understand on your comment that the branded players will also be looking at exports. So if you can throw some light that will you be aggressively looking at exporting at least in EU and the North American region, wherein Turkey was a very big player?
- Abhishek Somany:** I'm sorry, who was the big player?
- Pranav Mehta:** Turkey was a very big player.
- Abhishek Somany:** So I think what is happening is a lot of our old contacts, which we had where we supply very little, and they used to buy a lot from Turkey, etcetera. They are flocking again towards India to see how much material they can buy. So I think this time, there will be a decent amount of -- of course, our bases are very low. So I don't mean that exports will become my bread and butter. But it will definitely be much better than what we've seen in the past.
- Pranav Mehta:** And sir, my next question was related to the, any update on the recovery of the one-off item that we had seen during 2019, 2020. So any update on the same?

- Abhishek Somany:** I'm sorry, I didn't get your question.
- Pranav Mehta:** Sir, the one-off item that we had seen in terms of employee fraud and all this. So any update on the recovery?
- Abhishek Somany:** Yes. So we had mentioned that last time on the employee fraud, we have been able to recover half the amount and the rest of the half is still pending in a criminal case. And the other fraud which happened, there is no further update on that.
- Moderator:** The next question is from the line of Rajesh Kumar Ravi from HDFC Securities.
- Rajesh Ravi:** I have a few questions. First of all, this 15% revenue growth outlook you mentioned for FY '23 or H2?
- Abhishek Somany:** FY '23.
- Rajesh Ravi:** FY '23 because first half itself, your number up or around 30%, if I'm not wrong?
- Abhishek Somany:** Yes, but then we pleased the last year, Q1 was on the pandemic..
- Rajesh Ravi:** I just wanted to understand if you will -- the second half, you are expecting to grow at a much slower pace?
- Abhishek Somany:** Yes.
- Rajesh Ravi:** And second, on the gas cost, could you share the number of three regions for Q2?
- Abhishek Somany:** Yes, Sunit, you want to give them...
- Kumar Sunit:** I'll give you that. So basically, currently, the gas price overall is approximately INR 64. And if we see in the quarter, it will come to approximately, slightly under INR 60.
- Rajesh Ravi:** Sorry, for Q2, how are these numbers....
- Abhishek Somany:** INR 64, INR 65 for Morbi and Qatar and INR 75 in South. So because in South we moved 100% to LPG blended this year, this quarter should be approximately INR 59, INR 60 somewhere there.
- Rajesh Ravi:** As again INR 64 in Q2, we are looking at INR 4 to INR 5 lower number in this quarter.
- Abhishek Somany:** Yes. Maybe more INR 4 to INR 5 is fair.
- Rajesh Ravi:** That's quite a good thing. And this Amora capacity divestment, the current capacity you're talking about will reduce by this much in MSM?
- Abhishek Somany:** Yes, but we've added the same capacity in geographies.
- Rajesh Ravi:** So where have we expanded this?

- Abhishek Somany:** I think this, we had discussed this very much in length. So maybe in the interest of everybody else, we can take this offline with you because the divestment and also a large increase in Amora tile. So Amora ceramic got reduced and Amora tiles went up very substantially. So net, there has been an addition, not a subtraction. We can take it offline.
- Rajesh Ravi:** Sure, sir, I'll take this offline. Also, what was your comments on the sharp rise in inventory you mentioned in September?
- Abhishek Somany:** Sorry.
- Rajesh Ravi:** The sharp increase in inventories in September end?
- Abhishek Somany:** We were running the plant at more than 100% capacity to get the advantage where Morbi shut and we should be able to get extra volume, but that really didn't happen. So, a little bit of inventory buildup has happened because of that. And then also, there's been a muted demand in quarter 2 that also resulted in a slight build up in inventory.
- Rajesh Ravi:** So it should normalize in second Q.
- Abhishek Somany:** Yes, absolutely.
- Moderator:** The next question is from the line of Karan Bhatelia from AMSEC.
- Karan Bhatelia:** So what capex are we looking for this year and next year and the break-up as well?
- Abhishek Somany:** Currently, the capex, the big one is MAX, which we already have committed for. Other than that, we haven't really announced any other major capex.
- Karan Bhatelia:** Right. And on sanitaryware and faucets?
- Abhishek Somany:** We just did a capex double digit the bath fitting capacity. So there again, there is no massive capex other than balancing equipment, which we take as routine capex. So there's no major capex, which has been announced as of now, other than the INR 40 crores of various other balancing equipment, changing operator etcetera, which we do year-on-year.
- Moderator:** The next question is from the line of Manish Mahawar from Antique Stock Broking.
- Manish Mahawar:** Just specific to the industry, I think lot of participants have asked the question about the demand right? Just want to understand what has seen the 1Q to 2Q as the demand has slowed down as sitting across companies in the building material space, the slowdown. What is the specific reason or if you can throw light in terms of Tier 2, Tier 3 cities, which market you are seeing specifically, any pockets where we are seeing this on or a muted growth?
- Abhishek Somany:** No, I don't, like I mentioned earlier, I do not have anything concrete to point a finger at which, for example, in October, we clearly have something concrete, which is all the festive things that happened in a single month. That generally is the case of this time, it's even more pronounced

because both the Dussehra, Diwali, Chath pooja all happened in the same month. But that is again one month every year, it happens.

But for quarter 2, speaking of quarter 2. I really can't pinpoint anything which has muted the demand we can keep arguing as to what happens, but I do not have a specific answer. I mean we've spoken to various dealers, and some of them have to say that cash flow is an issue in the market wherein our cash flow has been very good. If you see we've only saved off more of our DSO, but some people are saying walk-ins are low, some people are saying it was extended rain. Some people were saying that we're waiting for prices to come down.

Some people were saying that a lot of spending is happening, priorities for this quarter after the entire world has opened has moved to other spending on holidays, etcetera, wedding, other purchases, auto you've seen auto do well, but all those are things which are just here say, if you had to ask me, I really do not have any specific answer as to why demand has slowed down all of a sudden. But again, on the same breadth, I would say, the demand has slowed down, but we are in a sector where we are sharing off market share from all other products like natural stone, wood, etcetera. So from that point of view, nothing is to be worried on a long term, even on a medium term perspective. But in the short term, I really don't have an answers to what is happened.

Manish Mahawar: And but in the sense, in the retail project business or government side across your seeing slowdown? Or is maybe retail dealer side, you are witnessing the problem?

Abhishek Somany: Across, Tier 1, Tier 2, Tier 3, projects, etcetera. I mean across.

Manish Mahawar: It's a broad base, you are saying completely...

Abhishek Somany: Broad, yes,

Manish Mahawar: So what I understand your guidance, if you are looking at a double-digit volume growth in this year FY '23 and maybe 15% to 20% revenue growth for this year as a whole right.

Abhishek Somany: Yes.

Manish Mahawar: And then lastly, what's your expectation in terms of industry domestic and export for this year as a whole, maybe or any anticipation of understanding.

Abhishek Somany: In what respects are you asking? Could you remind me.

Manish Mahawar: Tiles industry.

Abhishek Somany: True, but you're talking volume, value what are you talking?

Manish Mahawar: Volumes, what are the price perspective to look at like last year INR 22,000 size...

Abhishek Somany: I think we should be at INR 38,000 crores to INR 40,000 crores figure this year, industry size, out of which about INR 18,000 crores would be exports.

- Manish Mahawar:** So, INR 22,000, this is you are expecting a flat type of industry growth for domestic perspective because I recall last year the same number was there, INR 22,000, flat number we are looking at for the same...
- Abhishek Somany:** Last year was at INR 32,000 to INR 33,000 crores, you're absolutely, right INR 32,000 to INR 33,000 crores was the total industry size out of export was INR 12,000, INR 12,000 move to INR 18,000 which is the same INR 6,000 getting added to INR 32, INR 33,000 to make it INR 38,000 to INR 40,000, you're, absolutely right.
- Manish Mahawar:** We are looking at a very handsome market share gain this year?
- Abhishek Somany:** In other words, yes.
- Manish Mahawar:** And last point, lastly, what was your expectation of the sanitary ware and faucets earlier your last call your target for 35% to 40% growth?
- Abhishek Somany:** Yes. So I'm still looking forward to a 30%-plus growth in that segment.
- Moderator:** The next question is from the line of Shrinjana Mittal from RatnaTraya Capital.
- Shrinjana Mittal:** I just wanted to ask a question on a quarter-on-quarter basis, if you can expect us understand what -- is there any increase in the non-fuel RM cost also, because quarter-on-quarter gross margins have come down, there is few costs have broadly quarter-on-quarter tracking level, kind of held up, not gone up so much. Is there something there? Or is it sort of...
- Abhishek Somany:** Yes, even there, all our glazes are exposed to fuel because there also the firing is done on natural gas. So that also went up. Some raw materials imported raw materials, Ukrainian clay, etcetera, went up. But again, we don't use much of it, so I don't want to talk too much about that. But yes, the glazes went up and a lot of the compounds for the glazes come from abroad. Freight rate is still high. Now they've started coming off. So that also went up. Paper was something which went up in the early part of last quarter, but then started stabilizing. And as you know, fuel prices going up, which made a difference in our freight cost, input inward freight costs also had a major difference where diesel went up. So overall, I think the biggest culprit remains to be fuel and anything which was exposed to fuel.
- Moderator:** Your next question from the line of Aksh Vora from Praj Financials.
- Aksh Vora:** Just wanted to know debt has increased a bit. Do we have any plans to reduce it going forward in, say, a couple of years or any target on debt figure?
- Abhishek Somany:** No, debt really hasn't increased. I think Sunit can give you an overview of that.
- Kumar Sunit:** So can you just quickly, touch your precise point, Aksh?
- Aksh Vora:** So I just wanted to know if we have any debt reduction target and next couple of years. Currently, our net debt is around INR 359 crores. So if that would reduce the sizable amount? Or will it stay in the same range? I just wanted your view?

Kumar Sunit: So certainly, it would reduce going forward because a larger part of it is the term debt which has an amortization scheduled and that's too specifically in a much bigger size in one particular company that is the South plant, where we have the initial project on the first phase and then expansion. So we took another ticket size of term loan and so on an average on a consolidated basis, we keep repaying around INR 45 crores to INR 50 crores annually. So, that is something which we will keep reducing year-on-year.

However, there would be internal increase in short-term volume in the shape of working capital, but obviously, that would not be to that extent. So year-on-year basis, obviously, there would be reduction in total debt gradually, but as far as any reduction plan is concerned, there is no reduction plan as such, since we have made this clarification earlier as well that debt is more relevant number for us on a standalone basis. And in the standalone, you will see hardly any debt, precisely there is no debt. It's more of a bill discounting facility, which is actually in a way trade payable, but because of the accounting reporting it shifts from the payables to the short-term borrowing. Otherwise, there is no debt as such on standalone business.

Aksh Vora: Also just wanted to know, our tiles utilization levels are pretty high. So by probably next year, we'll be adding some more capacity. But is there any major expansion plan going forward in next year or so, because we're almost reaching peak capacity utilization, I think, so. I understand we have tie-up with JVs and other players, other vendors. But do we intend to take any significant expansion in capacity?

Abhishek Somany: As of now, it's the Max plant, which we are focusing on. So probably six months down the line, we should be in a better position to talk about that once we have also got a BI as to how deep rooted this muted demand is.

Moderator: Thank you very much. That was the last question in the queue. I would now like to hand the conference over to Mr. Somany for closing comments.

Abhishek Somany: Shailesh, I'd like you to do the closing comments.

Shailesh Kedawat: Thank you, Mr. Somany. Thank you, all the participants, in this conference. This has been as the as Mr. Somany said this has been a tough quarter, not only for us, but for industry in general. But I think forward to a profitable next quarter, right, with our operating margins increasing with two factors happening. Factor No. 1 is what Mr. Somany expressed, the conversion from RNLG to LPG, I think we're moving there, which should, in any case, get us some delta in the margin, plus we are softening. We have seen softening of gas prices also. So these two are the factors. If nothing goes drastically wrong from, I think we are looking for a good next quarter and a good next half year.

Abhishek Somany: Thank you, everyone, and we shall welcome you again for the earnings call of Q3. Thank you.

Moderator: On behalf of SKP Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.