POKARNA LIMITED
India's No. 1 granite company

Pokarna Limited
Q4 FY22 Earnings Conference Call
May 27, 2022

Moderator: Ladies and gentlemen, good day, and welcome to the Pokarna Limited Q4 and FY22 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, sir.

Gavin Desa: Thank you. Good day everyone and a warm welcome to Pokarna Limited Q4 and FY '22 earnings conference call. We have with us today Mr. Gautam Chand Jain, Chairman and Managing Director; and Mr. Paras Kumar Jain, Chief Executive Officer, Pokarna Engineered Stone Limited. I trust most of you have gone through the communication and the results mailed to you earlier. In the interest of time, we would like to commence with Q&A immediately. So I'd like to hand it over to the moderator to open the floor for Q&A. Over to you.

Moderator: The first question is from the line of the Pranav Mehta from Equirus Securities.

Pranav Mehta: Sir, just wanted to understand what was the impact on the margins because of the increase in freight costs and the raw material inflation, which has been impacting all the companies? And my second question was more related to what are your thoughts on how the U.S. countertop market is expected to grow with now the interest rates increasing? And the third question was related to any update that you might have on how the investigation on the Malaysian quartz imports, which USITC had started any update on the same would be quite helpful?

Paras Kumar Jain: Yes. So on your first question, how the raw material inflation and the freight costs are impacting as you see that the inflation in commodities is happening across all the industries and not specifically to quartz. So typically, the raw material prices have increased significantly, especially the polyester resin. We've seen year on year or 100% increase in the polyester resin prices. And same has been with the freight also. And apart from that be it all the other raw materials, we've seen significant increases between 30% to 100% happening only on the other basic raw materials. And also with the fuel prices going up even the local transportation and the other services cost also have gone up. So typically, all these factors impact anything between 5% to 7%. On the EBITDA margin, that's

POKARNA LIMITED
India's No. 1 granite company

the reason you see that on overall basis, there has been a contraction of the margin. And that is a primary factor.

And secondly, also the product mix is also an important factor in the margin determination. Because if we are able to sell a high value product at a particular price during a particular timeframe, the margins typically tend to not contract as much as they would have contracted had the price for the product been on the lower side. So predominantly, I would attribute the product mix and the inflation as primary reason for the contraction of the margins. That's point number one.

And coming to your second question, on the U.S. demand see, we don't currently see any demand related challenges in the U.S. market while the stimulus has been rolled back and also the mortgage rates have gone up and probably will go up. Because we believe that our product positioning and the customer profile is little different and we typically cater to middle to higher income related housing. So that predominantly doesn't get impacted by the mortgage movements what currently has happened. So we don't see any demand-related challenges in the market and that has been our visibility even for the current quarter and also some of the coming quarters as well.

Now coming to the third question on Malaysian investigation, whatever information what we have from the publicly available sources is that the department has issued questionnaires to the importers of Malaysian quartz and also to the producers of Malaysian quartz to determine the scope. So a lot of companies have filed response, some of them have not filed response. So in case the department views that there has been a circumvention, and Chinese have been trying to sell quartz made in China into U.S. via Malaysia route, then there is a high probability that the U.S. Department of Commerce may determine a circumvention case and applicable duties would come into force. But I think that will take time is what is our assessment at the moment.

Pranav Mehta: Sure, sir. And sir just a related question on margin and also on the working capital side. So have you taken any price hikes because some of the competitors in U.S. have already indicated they have taken price hikes in order to pass on the RM inflation? So were you able to take any price hikes? And second, the working capital seems to be a little stretched in FY '22. So if you can do some light on why that has been the case?

Paras Kumar Jain: We have a different approach on our pricing policy. So it may not necessarily be a price hike on the existing product. We also try to sometimes compensate our pricing by introduction of new products and trying to compensate what we are losing on certain products by getting some new products into the market. So we need not necessarily follow what competition does and we've successfully introduced certain new products, and we've been able to get the price what we believe on those. So that's point number one.

Point number two on working capital, yes, it is stretched as you see from the cash flow. Because the sales cycle, this time because of the shipping challenge is relatively longer than what it would have been in the normal circumstances. Because usually the payments are due when the bill of lading comes in, or when the material is onboard. So like typically, when we ship out of certain ports, what happens is like we've seen containers reaching the ICD, but not reaching the port first 60 or 80 days within India itself, because of the blank sailings or non-availability of space, or whatever it is. So unless the containers reach the port, or onboard the ship, we don't get the bill of lading. And then that's how we're not able to get on our payments also processed.

But I think with the container situation now dramatically easing, at least in last couple of months than what it was in the last financial year, probably the sales cycle and the working capital cycle should become healthier than what it was in the recent past.

Moderator: The next question is from the line of Dixit Doshi from Whitestone Financial Advisors.

Dixit Doshi: My first question is regarding the utilization of the new plant, if you can mentioned for the Q4, I mean, how much was the utilization? And whatever sales growth we are seeing as of now, it's like you mentioned that we are not increasing prices. So whatever sales growth we are seeing is predominantly volume led growth? And my second question is you also highlighted about the product mix also changes the margins. So, how do you see FY '23? Because obviously, I think when the new plant has started, we started with the basic product and as the utilization goes up, we try to play with the design and colors and all. So how do you see it going forward?

Paras Kumar Jain: Typically, the utilization levels are now around 70%. And now we are looking at going beyond that. And what predominantly in terms of the revenue what you have seen going up or for that matter little contraction in the margin is also because of the new plant where as you rightly said we are largely concentrating on basics. And now we have started the process of getting certain medium to end designs. And then eventually we'll have a optimum product mix as I can say, which can balance out both the capacity utilization and also give us the right numbers. So that is where our focus currently is that focus on capacity utilization to the maximum possible and then start getting in to the new products where the realizations are better than what we currently see.

Dixit Doshi: And so how do you see the margins for FY '23? Can we come back to -- let's say in couple of quarters come back to what we used to make?

Paras Kumar Jain: Yes. I believe that if the shipping prices become normalized and if this inflation tapering which is happening and goes in the same direction for a couple of quarters, I think bouncing back to the better numbers than what we currently reported is definitely possible.

Dixit Doshi: One last question and then I join back the queue, how is the scenario from the hospitality segment now that everything is opened up? Because that's a high margin business also.

Paras Kumar Jain: Yes, hospitality industry is relatively today in a better position than what it was about six months back. So, the inquiry funnel is definitely better. Now, we have to see how the order funnel comes into. So, I think if things are better and if there is no another monkey pox or COVID story coming in, probably hospitality will revive sooner.

Moderator: The next question is from the line of Pritesh Chheda from Lucky Investment Managers.

Pritesh Chheda: Sir, just wanted to know this debt of Rs. 500 crore plus, how do we see this moving over the next couple of years? And when will you take the next round of capacity expansion?

Gautam Chand Jain: No, our decision is that now we have to keep reducing the debt. So, our unit one is already debt free. So debt what you see is basically the new debt of the unit two and some promoters debt, which is still not paid. So, we for sure will be bringing down debt that is our first target now, before we embark on a major expansion.

Pritesh Chheda: Okay. And these two units do they have scope for any brownfield expansion if any, if you want to take your peak revenue potential at these plants by a minor tweaking here and there or would you will need a new plant?

Gautam Chand Jain: I understand your point. So, as you know that both the units have sufficient land available and originally the plants have been put in such a way that we can do brownfield expansion whether for major expansion also or for minor tweaking for new product mix. So, that of course, we will be continuing to do it, but not with the major investments.

Pritesh Chheda: My second question is, in the past call you were expecting the capacity utilization to be like 100%. And you were viewing a fairly robust demand scenario, the capacity utilization expectation of 100% was in this year FY '23. Are there any changes there we already had about 70% for the second plant is there any change on thought process there?

Gautam Chand Jain: I would first mentioned that we never say that we will utilize 100% capacity because it is very subjective the capacity utilization depends on the order mix, the product mix, the thickness mix. So this kind of plant will never have 100% capacity utilization. So it all depends on the orders. And we will be always aiming at optimum utilization of the capacity and we are already working on three shift production facilities. But don't forget that we need to spend time on cleaning of the machines. And it all depends on what color we are making and when we are cleaning the machine. So our optimum utilization is the target, but it can never be 100% capacity utilization.

Pritesh Chheda: Sorry, the word is optimum, apologies for that. So that optimum utilization do you see it happening in '23?

Gautam Chand Jain: Yes, definitely.

Pritesh Chheda: And my question on granite, when do you see normalization of business profitability there or absolute, because that business hasn't grown it's been in a certain range, do you foresee it coming back to that range or there any challenges?

Gautam Chand Jain: I don't foresee any large expansion or growth in the granite business. Presently if you see it is basically because the block sales have come down and that reason is being that the Chinese buyers are not allowed to come to India, they don't get visa for coming to India. And then also the shipping challenges. So a lot of blocks which have been produced are lying unsold or unmoved to the port and not shipped to the countries. So it all depends on how the situation will improve. But I don't foresee a great double digit growth or substantial growth happening in granite business. Also because the business has become very competitive, and we have no interest to do business without profits. So, we are very particular that whatever business we do, we should not lose money and in quarrying operations, again, it depends on the yield coming out of the quarries. So, I will sum it up that I don't foresee a great growth happening in the granite business.

Pritesh Chheda: Sir, on the debt figure would you be able to repay at Rs. 100 crore per annum run rate, the debt figure or that's optimistic?

Gautam Chand Jain: Maybe around Rs. 100 crore, we should target.

Moderator: The next question is from the line of Karthi Keyan VK from Suyash Advisors.

Karthi Keyan VK: Couple of questions, one is that you have a fairly large amount of inventory lying at the end of the year, how much of that would be transit inventory? The reason I'm also asking you this is the large inventory does that make it difficult for you to improve profitability? Some thoughts on that would be interesting.

Gautam Chand Jain: Are you asking about the granite company?

Karthi Keyan VK: No, sir, I'm talking about the consolidated numbers and most of the inventory anyway I thought was at the subsidiary level. So…

Gautam Chand Jain: See, if you see the inventory reasons for this inventory, when you talk of granite the inventory was lying in the quarries, when we talk of quartz, a lot of inventory has been in transit within the factory to the ICD, to the port, and then it is not recognized because we don't recognize the sale till the bill of lading is received.

Karthi Keyan VK: So this should get converted in the very first quarter, but that will be a substantial number, because I remember seeing Rs. 175 crore of inventory, which is quite substantial, even if I assume 60% gross Margin number.

Paras Kumar Jain: Typically, what happens is that specific to quartz, about a month sale is always more or less within the pipeline somewhere or the other pipeline and sometimes it is more than a month, especially if it is out of Hyderabad because it's not a port unlike Vizag where we directly put the material in the Vizag port. Here it is typically at ICD or sometimes sitting in Nhava Sheva and then onwards. So, typically, I think, the cycle will -- unless the shipping scenario completely improves, including on the granite side unless the Chinese story is sorted out. So I think 30 to 45 days typically will be in the transit for some more time.

Gautam Chand Jain: And also, please don't think that this inventory is finished product, it is also work in progress, and also the raw material inventory all together.

Paras Kumar Jain: And also sometimes when the supply chains are completely broken down, we are forced to keep inventories of certain items beyond our regular stock level, because we don't know when -- like suppose we are importing some items from Europe or some other parts of the world, we have to actually order more than what we need. And to make sure that we don't lose out on the demand opportunities. I think all related to the supply chain scenarios. If there is an improvement in supply chain scenario, I think largely this should get addressed.

Karthi Keyan VK: Just to understand the pricing mechanism better, sir, can I assume that all of this would be priced passed on to the customers? How should one understand pricing?

Paras Kumar Jain: What happens is that our pricings are relatively fixed. So we don't have a pass through mechanism that if I buy something at Rs. 10 and if I can pass on additional Rs. 10 extra to my customer that doesn't work. It's a fixed price. That's the reason all this typically impact to some extent. So, this will take care in the inflation of the raw materials, what we have currently.

Karthi Keyan VK: Second question related to the Malaysian issue that you spoke about, sir, would Malaysia be a large player in the game and therefore can the opportunity a substantial for the Indian companies?

Paras Kumar Jain: See, I don't consider that because when China was there, it was a substantial opportunity some spillover demand happened. If tomorrow Malaysia is closed, the guys may look at Indonesia, Philippines, Vietnam. So that story keeps -- the producers typically Chinese, they'll keep looking at some options apart from what ours. So, I don't think we should read too much into Malaysia spillover getting into India.

Karthi Keyan VK: And sir, you said you would reach optimum utilization sometime this year, which means that you'd have to think in terms of expansion very soon. So, what am I missing out here?

Paras Kumar Jain: Typically, what happens is that always in business, there are several opportunities we keep evaluating. So, there is definitely a process of evaluation, which happens on regular basis. So, it's difficult to comment at the moment as to what we will do and when we will do and whenever we will do we will definitely keep you guys informed.

Karthi Keyan VK: So, the next round of expansion, would it be say in order of magnitude lower than the last CAPEX you did? Because you said that substantial provision has already been made for expansion at your new unit as well, because the CAPEX was Rs. 450 crore or so.

Paras Kumar Jain: Chairman just pointed out, the focus is definitely on debt reduction, but at the same time, we will also keep the opportunities which come in mind. So maybe the second expansion need not necessarily be of the magnitude what we did, because we already have certain land, building and other infrastructure in place. So it need not be of that scale.

Moderator: The next question is from the line of Devansh nigotia from Securities Investment Management Private Ltd.

Devansh nigotia: Just couple of questions, sir, one, I just want to reclarify you mentioned that the sales group this year in quartz is largely volume related and we have not taken the pricing, is that the correct understanding?

Paras Kumar Jain: Yes, because we had our unit two coming up. So, we had a lot of volume coming out of unit two, so there we are doing a basic materials at the moment.

Devansh nigotia: So, there is an impact of raw material inflation and then also there is a mix which is towards the basic products which has compressed the gross margins?

Paras Kumar Jain: There is a raw material inflation, there is an impact on of all other services cost including shipping and also definitely the product mix.

Devansh nigotia: Okay. And in case of receivables so basically, when we look at the delta, if I look at last year, receivables were around Rs. 43 crore and this year it has become Rs. 143 crore. So, considering the scale has doubled from March '21 to '22 even after adjusting for that, how should we look at, I mean, has there been any change in the payment terms or this is largely to do with the consignment which is in transit and for which money is yet to be received? So, I mean, how should I understand the receivable days?

Paras Kumar Jain: Typically, it is a combination of both, as I said at one of the previous questions that the cash conversion cycle is relatively longer now, because of the shipping challenges. So, that is also impacting the debtors days. And also with the addition of certain large volume customers, there has been a change in certain payment terms as well. So, these are the two factors which actually has got this. I think, to some extent this should get adjusted in next quarters.

Moderator: The next question is from the line of Fathima Khan from Khambatta Securities.

Fathima Khan: Yes, so I have a follow up question on the margin side. The current presentation mentions that the operating margin was impacted by container unavailability and increased freight cost. But if we look at the previous concall, which was the last quarter it was mentioned by the management that the freight cost is typically borne by the buyers. So, how does that impact the margin? I can understand the impact on the revenues but not on the margin compression part because of the freight cost.

Paras Kumar Jain: There are two aspects to it. One is on the input, when we buy a lot of raw materials from Belgium, Norway and other parts of the world. So What I was buying at EUR 500, the container is now EUR 4,000 a container and that's the bulk buying. So to some extent the raw materials also get impacted because of that shipping cost, which is actually born by us, that is point number one. Point number two is that in the past, the way we price it we consider certain shipping costs and give the complete proposal to the customer that, okay, this is going to be a landed price.

Now the buying price is significantly gone up, while the selling prices remain same. So while we pass it on, the margin actually have contracted, so what otherwise I would have gained extra over the shipping, I'm not able to gain today. So that is again, impacting my margins.

Gautam Chand Jain: In addition to that, the marketing shows that we do fell through the last quarter. And that also has impacted the margins.

Fathima Khan: Okay. So when do you expect a normalization in this?

Paras Kumar Jain: See, typically with inflation cycle relatively being better than what it was last year, I think second half of the year probably will give a good clarity and probably will help us in getting the margins back to better level than what you saw in the last financial year.

Moderator: The next question is from the line of Rupesh Tatiya from Indulgence Capital.

Rupesh Tatiya: Sir, my first question is this sales and marketing event cost that came in Q4, can you can you please provide the number what was quantum?

Paras Kumar Jain: It was around Rs. 2.7 crore.

Rupesh Tatiya: And sir this Rs. 183 crore of inventory roughly, what would be the finished goods inventory and what would be the rest?

Paras Kumar Jain: Finished goods is Rs. 85 crore. And raw material is about Rs. 38 crore and work in progress is about Rs. 30 crore and then consumable stores and spares and all that is about Rs. 39.5 crore and then materials and all about Rs. 7 crore.

Rupesh Tatiya: Okay. So, I think Chairman, sir, was trying to say something Rs. 2.7 crore and then maybe there were some other thoughts, I think we lost the management line.

Paras Kumar Jain: I think, on the overall year basis, we also had a hit of foreign exchange fluctuation because when we made our payment towards the capital goods, which we bought for unit two, we took about Rs. 7 crore foreign exchange fluctuation loss also on the full year basis.

Rupesh Tatiya: Okay, understood. Sir, my second question is I mean macro, I think has definitely changed in terms of interest rates, we track housing companies in the U.S., the demand has fallen down. But you seem fairly confident that you will reach optimum utilization. So can you give us some soft pointers in terms of customer engagement or order book, I mean where does this confidence stemmed from?

Paras Kumar Jain: Basically, when we talk, typically we talk based on what we are seeing, feeling and experiencing in the market, be it our engagement with the customers or be it with what we see in the order book position and in general, our discussions with the different participants in the trade. So I think I can't give you the exact number, but what I can tell you is that we are talking about the demand scenario, keeping in view our order book position, and also our experience in the market.

Rupesh Tatiya: So sir, would it be a fair guess that you have roughly, let's say, 9 to 10 months of order book visibility? Would that be a fair assumption based on what you're saying?

Paras Kumar Jain: See usually the order books are not for 9 to 12 months in hand, typically, we have three to six months, but then it is a rolling number, which because the productions are based on the forecast, which we have annually. And then we keep updating the forecast what we received from the customers. So we have a decent visibility of the future.

Rupesh Tatiya: And sir my last question is, in the past we have talked about exploring the new geographies Europe, maybe Israel, Australia, growing the domestic market. So in a hypothetical scenario that, U.S. demand is not what we expect it to be, would we be able to scale up the other geographies fairly fast? I mean, do you have some sort of initial engagements in some of these geographies and will we able to bring that business up quickly?

Paras Kumar Jain: Typically, U.S. is the largest consuming market in the world. So I don't see any one particular or few particular markets making up for what U.S. wouldn't be able to take. While we engage in different markets, but I'd be honest to say that our eggs are in U.S. market and we are positive about that market. So I don't have any alternate market ready to absorb what U.S. market wouldn't be absorbing.

Moderator: The next question is from the line of Pratik Singhania from SageOne Investment managers.

Pratik Singhania: Sir my question is with respect to the logistics, in terms of our total sales of quartz, what percentage of contract is through the FOB route, and how much percentage is through the CIF route when it comes to shipment?

Paras Kumar Jain: Typically, it depends upon how the scenario will pan out. But it can be anything between 30% to 40% would be on CIF basis, and the rest would be on FOB.

Pratik Singhania: And sir this number changes very frequently every year, like meaningfully it changes or it changes…

Paras Kumar Jain: It can change because if the customers are not able to get their contracts in place, they will definitely like to use our contracts or our associations with a freight agencies. So that can change.

Pratik Singhania: And what was this trend in H2 of previous financial year?

Paras Kumar Jain: It was higher side, because we were having good contracts than our customers. So we were able to support them because in these times, I know a lot of companies have not been able to ship even 25% to 30% of their inventory.

Pratik Singhania: Right. And so when we do CIF basis in terms of the total container value, what percentage is the logistic cost?

Paras Kumar Jain: It depends upon the value of the materials, like for a basic material, if it can be even 50% or sometimes 40%, but for good values I think it's fair to assume that anything between 5% to 7% is the normalized number.

Moderator: The next question is from the line of Anurag Patil from Roha Asset Managers.

Anurag Patil: So sir, assuming for unit two optimum product mix and optimum utilization, how much incremental revenue we can do? A every ballpark number will be fine.

Paras Kumar Jain: It depends anything between 20% to 30% increment is possible.

Anurag Patil: On FY '22 revenues, you are saying incremental 20%, 30%.

Paras Kumar Jain: We have not given the breaker between one and two. I'm talking about what increment is possible from two, but I can't give you a number of two for competitive reasons.

Anurag Patil: So, broadly sir at total capacity, my question is like how much incremental growth we can achieve total all capacities available? 20% 30% annual growth is possible?

Paras Kumar Jain: Till the time we reach the optimum capacity, yes, but once we reach the optimum capacity, then reaching the 20% 30% number is definitely a challenge year-on-year. But I think for this financial year, I think that number whatever we reported about 20% to 30% on that should be a fair assumption.

Anurag Patil: Okay. And sir, how much of our quartz revenue is from private label and how much from the branded segment?

Paras Kumar Jain: See largely the revenue is from the white label or private label manufacturing, brand typically is getting built largely in the India and the U.S. market. But then building up a brand, especially in geographies, like U.S. is a different ballgame altogether. So we've not taken that path of being aggressive in the U.S. market, but we are definitely much aggressive in the Indian market and building the brand.

Moderator: The next question is from the line of Sachin Kasera from Svan Investment.

Sachin Kasera: From the domestic market, if you can tell us how FY ‘22 has gone by, if you could share some numbers on that. And how are you seeing the traction in the overall growth outlook for the Indian market in the next one to two years?

Paras Kumar Jain: See Indian markets without revealing you the absolute number, what I can share with you is that we've grown about 50% in Indian market than what we were in FY ‘21. So while the numbers are still low, but I think with the brand building exercise and the reach what we are establishing and what -- to some extent we've already established, I invite you guys to look at the website to find out where we are currently available in India at different locations, you can see that the reach is growing beyond Hyderabad all the way from Delhi to Kochi, you can find our products at multiple locations.

So idea is to go much beyond than what you currently see there. And while it will never in the near future be close to U.S. sales, but I think from our brand visibility perspective and being a B2C brand in India, I think the journey is really exciting and very promising as well.

Sachin Kasera: But sir, do you think in two three years the domestic can be a significant contributor to revenues or it will remain more of initially leading market at least for the next two or three years?

Paras Kumar Jain: I think next couple of years definitely it should be a leading market only and not become a major contributor. But I think in five years scenarios, I can say that probably one of the top five markets it would be.

Sachin Kasera: Second question is regarding this inventory, you mentioned that both inventory and debtors look higher, because of certain one-offs, which are beyond company's control. And you expect some of them to gradually ease off in the next two three quarters. How much of the impact currently on the working capital would be because of this one-off factor is it like Rs. 50 crore Rs. 60 crore or close to like Rs. 100 crore?

Paras Kumar Jain: I think about Rs. 50 crore would be impact of all those factors.

Sachin Kasera: Okay. And on the inventory side, you mentioned that as we ramp up now we are at 70% in this quarter in the new plant, as we ramp up to 90% to 100%. So should we assume that as we scale up, we don't need too much more inventory. And hence, the overall inventory level in terms of number days will keep coming down as we reach full or maybe sorry, the optimum utilization in the plant also?

Paras Kumar Jain: Yes, so as we increase the capacity utilization, definitely certain factors would get eased out. But then predicting what absolute number it would be down would be I think, little crystal gazing at this point in time. I think we should wait for another quarter or so to see how the ramp up happens and how the easing situation happens to get a better clarity on that.

Sachin Kasera: And one thing on margins you have mentioned that there have been certain one-off cost. And secondly on the pricing also, we don't like to go and increase price suddenly. But is it that like we don't ever look for a price increase or is it that we go them like once in a year and hence we could see some revisions maybe in another two three quarters when they come up for renewal of the contracts? Or is it that the input cost increase or decrease is something that we had to take as part of the business plan and see volatility in markets?

Paras Kumar Jain: When I say that we don't ask for price increase does not necessarily mean that we never go for a price increase. So, we have definitely taken price increases in the past from our customers, but then there are certain strategies, which we follow on a long term basis. So it's not necessarily that all the absorbs -- all the costs have to be always necessarily absorbed by us. So, we are following a pricing strategy based on the customer profile and the market and what our future opportunities could be. So -- and then we are trying to balance it with both the options available and I think at some point in time, the other option would also be used.

Sachin Kasera: And sir, on the old plant would we have worked at optimum utilization or that would have also been low utilization this quarter?

Paras Kumar Jain: See old plant is optimum utilization as we just mentioned in the previous questions as well. Optimum utilization is a factor which is predominantly influenced by the designs what you make. So considering all those factors, the first plant is already into optimum utilization for a long, long time now.

Sachin Kasera: And then last question regarding the previous question regarding plans to further increase capacity. And it was mentioned that we are looking at two things, one would be reduction of debt. And second would be reaching optimum utilization and better product mix. So are there certain things like we could look like for example, if the debt would come down, like Rs. 350 crore, we would look at the next expansion. Or once we reach optimum utilization and stay there and a good product mix for three, four quarters, we'll plan the next expansion if you could give us some insights there?

Paras Kumar Jain: See, as chairman just pointed out in previous question debt reduction is definitely one of our important items of consideration. But at the same time, we are also equally balanced and looking at the opportunities available in the market for the expansion. We don't have absolute number in the hand for the expansion at the moment. But as also said before that, definitely the new expansion we need not necessarily be of the size and scale what we did in the recent past. So that's what I can actually comment on the expansion at the moment. But we are not saying that we are just keeping quiet. It's what we mean to say is that we are not making large CAPEX programs at the moment.

Moderator: The next question is from the line of Aman Vij from Astute Investment Management.

Aman Vij: My first question is on the domestic market. So we had a target of reaching 500 locations in the next three years, if you can talk about what is the number at the end of FY ‘22 and the target for FY ‘23? As well as if you can give the update on the integrated things, how is the traction coming? This is the first question on domestic.

Paras Kumar Jain: Yes, so I think we are close to 100 locations right now. And the process of journey towards 2025 of 500 is there in our sight. So we don't have a number for ‘23, but we are looking at 500 by ‘25. So, I think whatever is needed to reach there, we are doing that. That's point number one. Point number two, in terms of the integrated thing, the market traction has been good. So already the product is launched in the Indian market at many locations in Mumbai, Delhi and other parts of the country. Wherever we have our display locations with our premier dealers, you can actually see the product as well. So while it's a very niche product at a very nascent stage, but I think the traction what we are receiving, because we are the only company in the world today to offer this product. And in India we are giving this possibility because we are also doing end to end 360 degree service. So we are able to get the integration done at the factory and then get it installed at the customer’s place. So I think it's a promising segment to be and we are excited about it.

Aman Vij: On this domestic market 100 becoming 500 in the next four or five years. So can turnover if you're doing X crore in this year, can the turnover become like 10x in the next three four years?

Paras Kumar Jain: If we are doing X today from this customer then it can become 4x to 6x if we reach those numbers.

Aman Vij: My next question is on the product mix. So, like you talked about old plant, there is a new plant also there is this basic product then there is medium and then there is high end. If you can broadly talk about the range what is the mix currently in old plant, what is the mix currently in new plant?

Paras Kumar Jain: Old plant typically has medium to higher end products compared to the new plant, new plant largely has a basic products.

Aman Vij: Okay. And so, going for FY ‘23 you are talking about optimum mix, so optimum mix will be like 60%, 70%, medium to high end will be even from new plant is this the optimum mix you're talking about if you can give a broad range?

Paras Kumar Jain: Typically, if we are able to get 30% to 40%, medium and upper grade and 60% even if it is at the lower part of medium to the basic grades, I think that's reasonable optimization.

Aman Vij: And for the old plant, we are already at this mix.

Paras Kumar Jain: Yes, old plant product mix is in a very positive scenario.

Gautam Chand Jain: I want to add one thing, we are a customer driven company, it also depends on what our customers want in repeat, sometimes they want 30MM, sometimes they want 20MM, sometimes they want expensive products, sometimes they want basic products. So, we cannot say that we will not make basic and we will only make 30MM to increase the realization. So, it is always depending also on the customer, though we try to introduce new products, which can fetch better price realization, but let's not forget that we cannot ignore our customers.

Aman Vij: Sure, sir. My question was also that unit two we are making many more…

Gautam Chand Jain: It really doesn't matter whether we are only able to make in new unit or we are able to make in unit one for a customer we are one company. So we will look at our convenience where we can accommodate which product for which customer when and when is it required in the market. So, these are all very hypothetical questions, because we cannot have an answer it all depends on when the customer wants what and where we can make it.

Aman Vij: Next question is on the large customers which we have talked about which we have added, if you can talk about the number of such large customers that we have added in FY '22, as well as what is the total number of large customers as of today?

Paras Kumar Jain: We usually do not give any number on how many customers we work with or what we add, but what we can say is that the customer profile is healthy, and we keep adding new customers and wherever we feel customer is not meeting our expectations then probably we have to relook at the customer base as well. So I think we are healthily placed in terms of the customer profile.

Aman Vij: So final question is on the -- so you talked about top five markets. So U.S. is number one, what are the other rankings in terms of market for us?

Paras Kumar Jain: So we also work in United Kingdom, in Netherlands, in Middle East in New Zealand.

Aman Vij: So these will be the top five markets for now. And you think India can replace and enter these top five markets?

Paras Kumar Jain: Yes, I think India can take the place in top five in next three to four years.

Moderator: The next question is from the line of Surhid Deora from Paladin Capital.

Surhid Deora: I just wanted to know if you can give us a sense of how much of your sales comes from new building versus refurbishment?

Paras Kumar Jain: See typically, we don't have access as to what happens in the residential or the commercial segment of our product. So largely since in U.S. renovation market was relatively higher than the new construction market and then now the new construction market is also catching up. So looks like -- I don't know the absolute number, but I think both the segments are catered well, probably the commercial and the hospitality segment is relatively lower than what it was in the past. Because we don't sell it to the end consumers or last line or last but one line of the consumer. Most of our customers are large distributors and then they have another couple of legs before the material actually reaches the consumer.

Surhid Deora: Right. So the reason I was asking is to determine if the new building housing market closed down, then would there be a material impact on the order book? Or because you have a high renovation business that might continue. So I understand that you're one level away from the customer you're selling to distribute as a dealer, but if you can give some color on how that might shape up in a weaker housing environment that would be really helpful?

Paras Kumar Jain: As I said, in one of the previous questions is that demand scenario seems to be definitely promising. We don't see any impact of any mortgages or new building constructions coming down on our business. So while I cannot comment with absolute certainty as to what will happen after a year or so, but currently, we don't see any challenges related to demand.

Surhid Deora: Is it also partly because quartz is replacing other types of surfaces, and India is taking share in the U.S. market? Are these two factors contributing to the demand coming your way?

Paras Kumar Jain: Basically, we've been in business for over a decade now. So we've always been the top exporters out of India and we continue to be. And quartz as a product is definitely one of the best available alternate to many other surfaces, which are used on kitchen countertops. So that is primarily reason because it is also taking away lot of share from solid surface laminates from granite and other natural stones. So quartz being a better product, market being stable, and I think all other economic factors being okay, that seems to be driving the demand.

Surhid Deora: And one just last questions clarification on something you said earlier, you said that if shipping prices go down, and if inflation eases then your margins will go back to last year level. Was that -- is my understanding, correct?

Paras Kumar Jain: You're absolutely on dot.

Surhid Deora: So if those factors don't reverse, just from a change in the product mix and your price increases, that won't be sufficient for you to go back to earlier margins.

Paras Kumar Jain: Yes, see basically it is a combination of factors, it is not one factor in isolation. So I think the overall inflation and if inflation improves and if the shipping costs go up, again, the challenges would come in, either it will impact the sale or it will impact the cost of sale. So I think both the factors have to get normalized before things become relatively normal.

Surhid Deora: Okay. But I mean, let's assume status quo, all the inflationary factors would the regular product mix improvement and pricing changes would that help to at least bring back by a 200 basis points or that's looking difficult?

Paras Kumar Jain: See we always look at being more efficient trying to get more profit from our efficiency than always going through a price increase process. So that process of being more efficient is already on. So if the inflation is relatively in control, then probably a little improvement in margin can happen with some more efficiency on which we are working.

Moderator: Thank you. Ladies and gentleman, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Paras Kumar Jain: Thank you everyone for participating on our Q4 call. Look forward to talking to you again in Q1 FY23. Thank you.