



“Acrysil Limited Q4 and FY 2021 Earnings Conference Call”

May 21, 2021



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Acrysil Limited
May 21, 2021

**MANAGEMENT: MR. CHIRAG PAREKH -- CHAIRMAN AND MANAGING
DIRECTOR, ACRYSil LIMITED
MR. ANAND SHARMA -- CHIEF FINANCIAL OFFICER,
ACRYSIL LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to Acrysil Limited Q4 and FY 2021 Earnings Conference Call.

This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company as on date of this call. These statements are not guarantees of future performance and involve risk and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Chirag Parekh -- Chairman and Managing Director of Acrysil Limited. Thank you and over to you, Mr. Parekh.

Chirag Parekh: Yes. Good evening, everyone. A very warm welcome to the FY 2021 Earnings Call of Acrysil Limited. Along with me on this call, I have Mr. Anand Sharma – CFO and SGA – Investor Relations Advisor.

I hope everyone got an opportunity to go through our financial results and investor presentation, which has been uploaded on the stock exchange as well as on our Company’s website. I hope that all of you and your loved ones are safe. These are really difficult times and perhaps the most important thing for all of us to ensure that you’re safe and so is your family.

This had been a challenging year for the first quarter of financial year 2021 being marred by COVID related lockdown restrictions. Despite the challenges posed, we are able to achieve growth on all fronts and therefore achieved our short-term guidance of Rs. 300 crores revenue. Also, the Board of Directors recommended a final dividend of Rs. 1.2 per equity share in addition to the interim dividend of Rs. 0.80 per equity share declared in February 2021.

During the FY 2021, the Company received approval of listing of equity share of the Company on National Stock Exchange. The equity share of the Company was admitted to dealings on National Stock Exchange with effect from January 14th, 2021.

The country is currently facing second wave of COVID-19 infections, the new strain of COVID virus infecting certain key states across the country. We are seeing more localized lockdown, micro lockdown, restriction imposed rather than a nationwide lockdown compared to last year.

Despite this scenario, we are able to run our manufacturing operations largely smoothly while following all the health and safety protocols. Our priority is safety of our employees and the Company is leaving no stone unturned to ensure this.

Coming to the Company's performance:

Our company in FY 2021 has marked a robust total income growth 13% Y-o-Y, our sustained thrust on growing our top-line while keeping check on costs resulted into strong EBITDA margin of 22.7%. Quartz continues to be dominant product category.

Export revenue grew by 20% to Rs. 244.7 crores for FY 2021. Domestic revenue were impacted due to nationwide lockdown in the start of the year due to lockdown restrictions. However, post-relaxation of lockdown measures, domestic revenues witnessed a significant pick-up and stood at Rs. 65 crores for FY 2021.

We witnessed spurt in demand from international markets during the year where domestic demand picked up post July 2020. We expect the sales momentum to sustain going forward. We have witnessed a change in the spending pattern in terms of discretionary income spent towards home renovation and décor due to limitation on travel and leisure spends. We have sufficient export order booking. Also, we have sufficient stock of raw material to meet production requirements. We have not observed any major supply chain issues during these unprecedented times, however, the logistics cost has gone up.

Coming to our capacity expansion, I am pleased to inform that our Company has successfully completed the expansion of 100,000 units of Quartz Kitchen Sinks announced in August 2020 within a short span of time. The commercial production from this additional capacity commenced from the end of February 2021.

The manufacturing capacity of the Quartz Kitchen Sinks increased from 5 lakh to 6 lakh units per annum. This was due to the commitment of employees and their preparedness to work under difficult situations.

We have recently announced additional capacity expansion of Quartz Kitchen Sinks by another 100,000 units. It is progressing well, and the project is expected to be commissioned by June 2021, date to be confirmed. We feel that we should be able to complete as per schedule however due to storm in our state and Bhavnagar is a little affected. So, this may be a little bit postponed to July 2021 for the next 100,000 capacity. Post this expansion our manufacturing capacity will stand at 7 lakhs units per annum.

Let me update you on our strategic partnership with IKEA. We entered into a strategic partnership IKEA Supply AG, Switzerland in August 2020 for manufacturing supply of Quartz Kitchen Sinks to their global requirement. IKEA has an expertise in distribution and supply in home improvement products.

Our company commenced the dispatches of the Quartz Kitchen Sinks to IKEA in March 2021, which should enable IKEA to offer its customers the best of its class Quartz Kitchen Sinks manufactured by Acrysil.

Innovation is the core of the company. Company possesses the ability to think new and maximize the opportunity. With our technical proficiency within the current product line, we constantly launch new variance to meet the customer's expectations. Our Company is focused on creativity and in-depth research in every step of the product designing .

During the year, we have introduced new products with Anti-Bacteria Sink and many other variants in the kitchen appliance segment. Acrysil is aimed towards world-wide expansion of the Company to touch more lives and increase our value proposition. We are also working towards increasing our global footprint by developing a strong network to capitalize on opportunities.

We have taken steps to further explore the American, European market and grow across the globe as a valuable trustworthy brand. Our Company is focused to build brand and distribution channels across India, our products has global appeal and have impressed both influencers and consumers all across the world.

We also have a special announcement here that Company has tied up with GROHE, leading german sanitary brand for supply of stainless-steel kitchen sinks. We all have news, since I am in America, our distributor is able to tie up with Menards, which is a USD10 billion retail store with 850 stores. We have tied up for distributing our all Acrysil Granite Sink in all the Menard stores across the United States.

Our Company is being paying special focus on asserting brand dominance, which is highlighted in our global partnership with reputed retailers for home improvement products. Our Company has always embraced challenges and come out at the top of the back of its grit and determination. Having established ourselves as a long-term player in the industry, we are headed towards a future of a consistent success and increased value addition.

Now, I would like to hand over the line to Mr. Anand Sharma -- our CFO to update you on the financial performance of the Company. Mr. Anand Sharma.

Anand Sharma:

Thank you, sir. Good evening, everyone. Let me take you to the financial performance of the Company, Q4 FY 2021 performance:

The consolidated total income including foreign exchange gain stood at Rs. 104.3 crores for quarter four FY 2021 as compared to Rs. 65.8 crores in quarter four FY 2020, recording a growth of 59%.

EBITDA of the Company stood at Rs. 24 crores as compared to Rs. 11.1 crores in quarter four FY 2020, recording a growth of 117%.

EBITDA margin for quarter four FY 2021 stood at 23% as compared to 16.8% in quarter four FY 2020. Recording an improvement of 620 basis point.

Profit after tax and minority interest stood at Rs. 13 crores in quarter four FY 2021 as compared to Rs. 3.9 crores in quarter four FY 2020, recording a growth of 235%.

Coming to FY 2021 performance:

The consolidated total income including foreign exchange gain stood at Rs. 315.5 crores for FY 2021 as compared to Rs. 280.3 crores in FY 2020, recording a growth of 13% year-on-year.

We have achieved EBITDA of Rs. 71.6 crores for FY 2021 as against Rs. 50.5 crores for FY 2020, a growth of 42%.

The EBITDA margin increased to 22.7% from 18% and overall improvement of 470 basis points.

Profit after tax and minority interest for FY 2021 stood at Rs. 39.1 crore as compared to Rs. 22.1 crore of FY 2020, recording a growth of 77%.

Our net debt-to-equity standard 0.52x as of 31st, March 2021.

Our return on capital employed stand at 20.7% as on 31st March 2021.

Our return on equity stands at 20.2% as of 31st, March 2021.

Now, we will open the call for questions. Over to operator.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Sir, in the quarter four, in the other expenses line is there something to highlight because the Q-o-Q margin looks a little bit different?

Anand Sharma: Sir, can I reply?

Chirag Parekh: Okay.

Anand Sharma: So, Pritesh bhai, this quarter four, the increase in other expenses is pro rata to the production and sale except export freight, which is increased by 45% quarter-on-quarter basis. So, there is a

significant increase in the cost of freight, which we are passing on to the customer and we expect that it will stabilize in this quarter.

Pritesh Chheda: Okay. My second question is we have a medium-term target of about Rs. 500 crores and we have exceeded the number at about Rs. 100 crores and we are constrained by capacity, which we are adding up, which also signify that there is a fair amount of demand in the system. So, this Rs. 500 crore medium-term target in your opinion is how far into the future now? Is it a year or a couple of years or more than that?

Chirag Parekh: Pritesh bhai, I think what you had rightly said that I think this is the first benchmark which we have achieved on the quarter four that we achieved on Rs. 100 crores, if you take the annual rate is already Rs. 400 crores is the same momentum. Plus, we are already seeing some tie-ups which we are making. We are also seeing some continuing pent-up demand coming up. So, we definitely feel that our goal of achieving Rs. 500 crores which was earlier, we were thinking about four years to five years, it will be now probably happen sooner. So, even if you take annual rate of Rs. 400 crores plus we will have some stainless-steel sinks and built-in appliances. So, I think the company is planning to achieve this target as soon as possible.

Pritesh Chheda: Is it probable that the Rs. 500 crores revenue can be achieved in FY 2022 itself, considering that you are adding more than 20% capacity in sinks itself, is there a high probability that you can achieve Rs. 500 crores in 2022 itself?

Chirag Parekh: At this point of time, we are really focusing on expanding the capacity, we are up to 7,00,000 sinks which will be probably by quarter two. I mean, we would not have all revenues coming in though, we would not get the benefit of the full year. But I think our company is exercising focus a lot. I mean number is obviously the outcome. But we are trying to see that even if there could be chances further that the new tie ups are being made by the company. So, there is a likely possibility we may have to go for another expansion soon. So, I think the numbers will follow the expansion.

Pritesh Chheda: Okay. And my last question is, there is an opportunity in domestic market in kitchen sink, considering one of the brand has split up in two ways, the Nirali brand. How do you see that opportunity for us and is there opportunity whereby we can really accelerate our growth in steel sinks. And it was quite surprising that a lot of categories in the building space in India in FY 2021 did grow. But for us, when you look at domestic business, it has declined by about 15% to 17%. So, some comments there as to why there was any challenge for us and how do you see the built up on the domestic business within that kitchen sinks for us?

Chirag Parekh: So, I think it is a good question. And let me just answer this. Overall demand of the Granite sinks that said in last investors call, there has been a huge demand. The market share of Quartz is increasing in the stainless-steel segment. I think that it is not just across in America, Europe but across the world, that includes India also. Unfortunately, what has happened is because of this

production capacity constraints, we were unable to supply approximately 30% of our orders in India on a month per month basis. So, we have also an exports too. So, I think that has not been able to improve the domestic performance, if we had the production capacity we would be able to have a better number. So, that is one.

Number two on the stainless-steel sink side, I would not a comment on what is going with our competitors. But yes, we have seen the demand of the stainless-steel sinks in India going up. We have been working quite aggressively, we have been getting a good response. And thirdly, on the stainless-steel sinks, we have tied up with GROHE. We are tied up with some other export customers. So, there will be an expansion of the stainless plant also. So, I think all-in-all, including the export, domestic and the granite and the stainless-steel sink. I think we are looking at a good momentum in sales for the year.

Moderator: Thank you. The next question is from the line of Varun Arora from Great Eastern Shipping Single Family Office. Please go ahead.

Varun Arora: My first question is related to the COVID situation, if we can talk about the COVID situation in Bhavnagar? Has that impacted the local labor in any manner? And also, there was a cyclone, if you can talk about any challenges that we might be facing right now?

Chirag Parekh: Yes. So, there are some short-term challenges which we are facing currently. And we have been experiencing absenteeism because of the COVID situation. Fortunately, the COVID situation in Bhavnagar has improved dramatically for what I heard from my operations team. People are coming back to work. Earlier absenteeism used to be about 20%, now it has dropped by 10%. So, we assumed by next month, everything should be online. That is one.

And number two is on the cyclone here. Fortunately, we are saved, there was not much damage which has happened to the company, there are some shade which has been torn apart and some small damages here and there. But nothing major which should disrupt our expansion or our production. So, we should be absolutely in line with our capacities.

Varun Arora: Sure. Second question is related to the international geographic mix, if you can give an idea as to how that is shaping up? And also, some color as to because I mean, there was lockdown in some of the countries like UK, there was lockdown, so last year was kind of slowdown in the UK market. But things have been opening up. So, if you can get some color as to how your key markets are opening up, maybe some idea about the March exit that would be helpful.

Chirag Parekh: See, one thing is, nothing can change past. The western countries are more mature in terms of the Granite Kitchen Sink. So, about 60% of revenue comes from America and Europe and then from Asia and other countries. But overall, there has been a localized demand, we have experience just from United States, Europe, UK, there has been overall demand even from India, Asia and everywhere. For the Granite sinks, that is one thing.

Number two, the pandemic situation, yes, there has been lock down but fortunately lockdown has worked good for our company. Like I am right now in America and I have been visiting all my clients here, because we have just got our deal with Menards. I went to see the Menard stores across America, we are putting display sink. You can see unbelievable line of people, there have been crowd to buy home improvement products. So, home improvement has taken a big lead in sales here. The dynamics of the working as say, the more hybrid working culture is accepting. not only in America, but also in India. People are working more from home, the work-from-home culture is considerably high. I went to my clients office last time there were 200 people in the office, this time there were four people in the office and yet the revenue increased by 50%.

So, there has been big change and because of that there will be a more of ordering of the home improvement products, especially our kitchen sink. And secondly, in order to overcome this challenge of the lockdowns there are more online ordering system. The UK experienced coming back to the UK question approximately 30% of all revenues of the kitchen sinks came by ordering online of our kitchen sinks.

Moderator: Thank you. The next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Chirag Bhai I hope you all are doing well. Congratulations on good set of numbers and I am congratulating with new tie-ups with GROHE and US store. Chirag Bhai my question was regarding, when we see your presentation and when we understand that we have been pushing our sales in domestic market. But an even we have grown, we have grown from 95% export to today 79% export. So, domestic market has grown, but we see the pie of products there we see that even Steel Sink is not growing and our Quartz business is growing. So, is there any change in the customer demand in India, which is shifting from Steel to Quartz, or you see that growth coming in future? And even in export market, how do you see that trend in Quartz Sink and Steel Sinks?

Chirag Parekh: Very good question. So, answering your first question. Yes, there is no doubt that the Granite Sinks are the future, it is approximately less than 10% of the global Kitchen Sink business, we have a long highway yet to come. Good times, I am sure it is going to come for our Granite Kitchen Sinks sink because there are only about four to five companies in the world who produce this Granite Kitchen Sinks.

We got two situations here, one is the pandemic which has helped I want to repeat again, the work-from-home culture. And second and best share of the Granite Sinks sales consistently increasing. We have seen in our kitchen work tops all people are using Granite worktops, nobody uses stainless-steel. This is the same way the Granite Sinks, the Quartz Sinks has come out in kitchen sinks. Nobody wants to use the Stainless Sinks. Preferably, I will not say nobody wants to use, preferably now the Quartz Sinks are coming into play. So, I think that is one.

On the domestic side, especially on the stainless-steel Sinks, yes, that is like I said the Quartz Sinks are coming up. So, the focus on stainless-steel is not there. But due to some circumstances in India, which is favoring us on competition side there has been a big demand coming for us on the stainless-steel kitchen sink side. The company is investing to double the capacity in stainless-steel sinks. Both on account of export and for the Indian market, the company is also expanding in terms of our R&D which we are producing more high-end stainless-steel kitchen sinks to add better value addition gross margins to the company.

So, we are actually working in a space where nobody else manufactures products like us. And the Designer Sink what a manufacturer that is probably “Acrysil” is probably actually the only company which is manufacturing this. So, yes, there have been variable demands and on second side on stainless-steel, but the new tie-up with export also going to give a boost to the stainless-steel sink.

So, I think overall we are looking at also the stainless-steel side to perform well in the current year and the future years. Again, we have also put the PVD plant, Physical Vapor Deposition plant for manufacturing innovative rose gold, yellow gold, sinks for high end markets. Thank you.

Sanjay Shah:

Sir, my second question was regarding Sternhagen brand. It is while we have been launching these and promoting for STERNHAGEN brands. Can you highlight upon it, how is it doing and what is the future strategy on that side?

Chirag Parekh:

Yes. So, STERNHAGEN I think is a brand where we have achieved is probably the top five brands in India, as far the luxury brand is concerned. Unfortunately because of the pandemic, which was at top highest selling points of our Bangalore, Delhi, Mumbai, have seen severe lockdown, so we are struggling there with the sales. But our momentum is not going to stop. We are right now currently focusing on our Granite sink and on the stainless-steel sink side, knowingly we not been able to do much focus on.., But our program to escalate the STERNHAGEN ceramic sales is already running.

We are adding a lot of new Quartz models in the STERNHAGEN side, we are tied up with export customers also on the STERNHAGEN side. We have we have tied up with Susanne Khan, the famous designer, the ex-wife of Hrithik Roshan, she is willing to partner with us on launching a new line which is not a very luxury line, but a premium line between Rs. 10,000 to Rs. 20,000. So, we plan to launch this pre-Diwali this year and I believe that, at that time the whole situation will be at much ease in India.

So, we are soft paddling, but does not mean we are sleeping on this STERNHAGEN as a category, and we are quite optimistic as far as STERNHAGEN is concerned for the future.

Moderator:

Thank you. The next question is from the line of Ayush Agarwal from Mittal Analytics. Please go ahead.

Ayush Agarwal: Sir, my first question is, can you please elaborate more on the new American partnership that we have? What kind of products will we be supplying to them? And when can we expect this starting?

Chirag Parekh: Yes. The thing is good when you answer the questions of the US market it is good when you are in America. So, I have been actually traveling around a lot to see client and what is happening. I think America is one of the most potential markets moving forward. And I think, everybody would agree on the potential what America has a country for the exports. It is always the large volume. Menard is a third largest retail chain after Home Depot Lowe's in America, approximately \$10 billion revenue. It is 850 stores mostly in the Midwest of the United States. We have about four SKUs right now. They are planning to increase it to 18 SKUs within a very short period of time. It could be one of the top selling Granite Sinks inside the stores. So, what are the information what we have, I think they should pick up at least 50,000 Sinks to start with for the year, which would be a total revenue of about Rs. 25 crores a year just from a single customer. We have another two customers which are our major customers, Karren and Kraus and we have MSI which is the largest Quartz slabs importer in United States run by Gujarati company. They import about 30,000 containers of quartz slabs into United States. So, even we have started supplying to them. So, overall the situation in America, we are expanding quite well, as you know we have opened up our American office too, and soon we will be able to expand our operations in the US to have a much more to have to gain grounds in the American market.

Ayush Agarwal: Alright, that's good to know. And we can already see data on US home building and home builders consumption that has skyrocketed in the US, so it is a good time for us to be there.

Chirag Parekh: Yes.

Ayush Agarwal: And sir my second question is, as far as I can remember from our last concall, I had asked this question that how much granite sink can be housed in the current infrastructure that we have, and you had mentioned somewhere around 8 to 10 lakh sinks. But we also had mentioned that, this year in the CAPEX that we see it is pretty high-end number and the reason for that is because we had bought some land. So, what are our plans after this June expansion is over in the granite sink area, because if we have already bought land then I'm sure we would not be able to build an infrastructure as easily as we did for the last 2 lakh capacity. So, what are our plans going ahead for the expansion of capacity in granite sink segment?

Chirag Parekh: Yes, you are right, I did say we had acquired land in good capacity for million sink. So, as we are talking, I am in talk with my team, especially with my marketing sales team moving forward. And also looking closely at the pandemic situation. But it all likelihood, it seems that the company looking at the different tie ups, we may have to likely go for another round of expansion we don't know at what level, at the appropriate time we will let you know. But it's quite likely

that company may have to go for another round of expansion to ramp up capacity to cater demand for both domestic and into international markets.

Moderator: Thank you. The next question is from the line of Aditya Jadhav from SIDBI Venture Capital. Please go ahead.

Aditya Jadhav: My first question is regarding a domestic sales, I could see that our dealer network and distributor network for the last two, three years has been stagnant at a 1500 dealers and 82 distributors, is it the stagnation reason for our almost flat revenue in domestic market?

Chirag Parekh: So, there are two sides of the story here. One is that, the company does not have like I've been saying again-and-again, we do not have capacity.

Aditya Jadhav: I heard that, I'm just asking apart from that.

Chirag Parekh: No, that's what I'm saying. So, because of that we are kind of soft pedaling to penetrate our sinks in the domestic market. That's one, there is no point of market expansion when you cannot supply the granite things on time to their customers, which is quite sad. And the second side of the story is if you remember in my last talk that company is building, doing broader activities of brand building and expanding the showroom size. So, any other category of the C category dealers we are improving to category B and B category we are improving to category A, now what does it mean. It means that the C category of a dealer is more of a prototype display where you have one sink or a couple of sinks, then the B category has about at least 10 models of sinks both granite and steel and they have few built in appliances. And category A, which is approximately 500 to 1000 square feet of a display showroom which is a standalone showroom categorized as a franchisee model. So, we have been actually working more on a branding display then trying to create more numbers in India, in fact dealers. So, we are upgrading our dealer.

Aditya Jadhav: Okay. So, my second question is regarding your IKEA partnership, can you help us understand any kind of fillers that you're getting from IKEA about kind of growth that you foresee from IKEA, and what kind of capacity that you will have to add to cater to that demand?

Chirag Parekh: So, we have started the supplies, we have decided the second model to it, got approval, second model is going to start. So, they're just waiting for few months because right now our capacity is full. IKEA is very happy with our quality, that's a very good sign. The sinks have been supplied, so they need little bit time to assess our quality, our delivery on time situations and all. And then based on that, like I said earlier there is a large opportunity with IKEA moving forward. Now how large that can be, we definitely think it is going to be larger, how large even I am not aware. But it's going to be quite large.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

- Rohan Gupta:** Sir, first is on the EBITDA margin, which is mainly led by almost 400 basis point gross margin expansion and now we have roughly 23% EBITDA margin. Sir can you explain a little bit, is it driven by better product mix or higher realization of the sink or is that basically just some raw material cost advantage which we had in the current year costs ?
- Chirag Parekh:** No, the last time this question had come, I had explained that this is reason of a good product mix and a better price realization.
- Rohan Gupta:** Okay. Sir if I look at your revenue and the kind of numbers which you have, it seems that your average realization for the sink business is roughly only Rs. 5000 per unit that may convert roughly as low as \$70 to \$80 per unit. So, is there a new scope in terms of change in the product mix on the premium line or a large part of the business which we do exports is a low end of the product or a low value product sir?
- Chirag Parekh:** So, to continue the focusing on coming up with more innovative product. So, I remember if you take Acrysil 10 years back or 20 years back, I do remember the average price of the kitchen sink was Rs.3000, 10 years back it was Rs.4000. Currently, if are at approximately Rs.5,500, just five years back it was Rs.4500. So, we've been consistently able to increase the price realization, which is a very good sign and we have a consistent efforts to improve that.
- Rohan Gupta:** Okay, sir just second question if I'm allowed to ask, otherwise I can get back in queue. Sir you have just added a capacity of 1 lakh unit in month of Feb and going to add 1 lakh further by June. Other participants also asked that, additional 2 lakh units available for FY20 in rest of the year can we have a higher volume growth, can we have a 30%, 40% kind of volume growth because we have additional capacities available. So, just wanted to know on that front that, is there a scope for us to do strong volume growth in the current environment?
- Chirag Parekh:** So, we don't have additional capacities but we have in terms of land, we don't have in terms of the infrastructure. So, the plant we don't have another 2 lakhs in capacity available. So, company will have to put up additional capacities.
- Anand Sharma:** Sir, he's asking the additional volume from 5 lakh to 7 lakhs and how we are going to addition of 40% whether we will be able to dispatch and produce?
- Rohan Gupta:** Exactly, which we have already added to.
- Chirag Parekh:** Yes. So, about 5 lakhs, last year we did 400,000 sinks, the 400,000 sinks and if we are able to do 700,000 sinks there is already a 30%- 40% growth.
- Rohan Gupta:** So, is that kind of a growth one can expect sir, from this kind of this year., As revenue growth last year was hardly there
- Chirag Parekh:** No, let's talk about how was the quarter four compared to last year, so yes comparing.

Anand Sharma: Rohan to answer your question, the capacity is getting added in the Q2 FY21 and we have 100,000 additional capacity available from March 2021 and other capacity is coming from June or July. So, yes there is a capacity addition we are doing and we are seeing good demand. So, we will definitely catch up the demand with the capacity we are planning, that's how we see it.

Moderator: Thank you. The next question is from the line of Resha Mehta from Green Edge Wealth Services. Please go ahead.

Resha Mehta: My first question again is going back to our bath fitting portfolio, which is the STERNHAGEN brand. So, this brand has essentially been struggling even before the pandemic year. So, what really has been the pain point here, is it the high price point, the positioning of it being a luxury product, is it our sales and marketing or is it that we've not really channelize our energy towards leveraging this brand. And also last year despite it being a pandemic year in India, the home improvement space had gained a lot of momentum. So, in that context in the last one year has the brand done better than the previous years, and what are our revenues from this particular brand in FY21, that's my first question.

Chirag Parekh: So, in my last call also I said as far as Sternhagen brand is concerned our focus has always been on building a brand not on the revenue side. So, we have been able to manage to get product visibility, because of the high price points, high innovative products, one of a kind product which nobody has in the world. And the price points are really very high for the Indian market. So, looking at that yes, it also took a lot of time for us to get the displays done, to get the showroom attention, consumer attention. So, lot has taken that time, about a few years. Finally, we have about 65 dealers across India doing it and just when it was about to begin to pick up at that time the pandemic happened.

Point number two, yes we have not actually put our energy in channelizing operations across India, we have not put much focus on marketing to try to promote this brand due to various circumstances. But it is on our radar and moving forward in the home improvement space it is going to bounce back very fast once this pandemic situation is over and we see once this gets over, Sussanne Khan line coming in and she is promoting with the builders, architects which will take the brand to the next level very soon.

Resha Mehta: Okay. And the second question is on the working capital. So, is there any scope to reduce our inventory and debtor going forward, and If yes, then what probably could be the quantum of that reduction?

Chirag Parekh: So, I will ask Anand to answer and Anand has the numbers and ratios and we have already made a significant improvement, but I will leave it up to him to say.

Anand Sharma: Yes. So, to answer your question, we have already taken steps to reduce our working capital cycle. And if you can see from our result which we have given there is a balance sheet also, we have reduced on the inventory side. So, inventory which was around 72 days, that's come down

to below 60 days. So, there is already reduction in the inventory side. Now coming to the debtors, yes we wanted to focus on reduction of debtors but there we have customer, who have long standing relationship with us, we don't want to put too much pressure because then it will affect the volume. And in the Indian market, you can see the pandemic is playing all the havoc. So, we want to take the action but we want to have a calibrated action which should not affect our business growth.

Moderator: Thank you. The next question is from the line of Ananth Jain, Individual Investor. Please go ahead.

Anand Jain: My first question is that we added 1 lakh capacity in the month of March, are we fully utilized there?

Chirag Parekh: Yes, we have started fully utilizing that.

Anand Jain: Great. Now, my second question is on future expansions, we are coming up with another 100,000 in June. Do you think that future expansion should be of much larger quantities because we will be at 7 lakhs and then with these kind of tie ups that we are having, and like for example, which we have announced like Menard, and then the other Gujarati firm MSI, that's what you mentioned? So, do you think that we should be coming up with much larger capacity expansions after June?

Chirag Parekh: So, I actually honestly believe that the next expansion could be of a larger magnitude because looking at the pent up demand we cannot go on adding like 100,000 sinks and it is taking our a lot of time. So, we need to have a little bit more aggressive in increasing the capacity. So, yes, you are right that is what something we are currently thinking on.

Anand Jain: Last question, there was a question on STERNHAGEN, and I just want to understand how much money are we losing in STERNHAGEN and when do we expect it to breakeven?

Chirag Parekh: So, Anand has a number so approximately about 50 to 60 lakh figure, Anand how much on STERNHAGEN?

Anand Sharma: So, it is less than 80 lakhs we are losing, it's not much amount, because once this turnover what we are expecting to coming in, we should be able to breakeven smoothly.

Anand Jain: Okay, so this 80 lakhs a quarter?

Anand Sharma: No, yearly.

Anand Jain: Okay. And final question is we have kind of got into Menards, what about Home Depot and Lowe's?

- Chirag Parekh:** One thing good, we have already started Home Depot and Lowe's on the online sales program with them, we have not gone into a stocking program with them because we cannot knock on their doors, looking at the current constrain in the capacity, with appropriate time we will definitely do that.
- Anand Jain:** So, we are selling online as of now on that type?
- Chirag Parekh:** Yes we are online with Lowe's and Home Depot.
- Anand Jain:** With our brand or with their brand?
- Chirag Parekh:** With their brand and our partners brand.
- Moderator:** Thank you. The next question is from the line of Surhid Deora from Paladin Capital. Please go ahead.
- Suraj Deora:** Just a continuation on this US subject. If I remember correctly, you only form the US subsidiary in FY20, is that right and can I assume that your US sales only started in FY20?
- Chirag Parekh:** No, US has been there for last 10 years, we just opened up the office because we wanted some more focus on the US market.
- Suraj Deora:** Okay. And what percentage of your overall sales is coming from US today?
- Chirag Parekh:** Approximately about 30% to 35%, right now which is expected to go to 40%.
- Suraj Deora:** Okay, got it. And MSI you said you're working with them for sinks or for quart slab?
- Chirag Parekh:** Sinks.
- Suraj Deora:** Okay. And last question is that, when you're planning your next round of CAPEX sounds like you will require to do a larger program, any thoughts on how you plan to fund that and will you need to dilute?
- Chirag Parekh:** Sorry, I could not hear your last sentence very well.
- Suraj Deora:** I will just repeat, you're planning a larger round of capital expenditure going forward, your expansion going to be larger than your 1 lakh unit, do we need to raise equity for that?
- Chirag Parekh:** I don't think so at the point, so we are still contemplating as we are talking on what sort of capacity we need to build. So, once we get that sorted out, we'll have exact number on capital expenditure.

Moderator: Thank you. The next question is from the line of Rajil Shah from Manashvi Securities. Please go ahead.

Rajul Shah: I just have one question, so how is the fixed and variable expenditure in our other expenses looking and because given that the scale would be improving, what kind of operating margins can we expect going forward. So, the operating leverage, can we see like, blended margins of say 24% to 25% on yearly basis? And the other question is slightly on the continuation of the US partnership. So, you said that around 50,000 units will be supplying to the client going ahead, and is there scope for further capacity expansion to serve that specific line or the whole export and the domestic line as well?

Chirag Parekh: So, I will just answer this second question, then Anand will answer the first. I like already said that very likely we will have to do a expansion in our Company. So at an appropriate time you know how much we do., Coming to the margin side Anand will answer, but before Anand replies to your question one thing is, we have to understand the supply chain across the world has been quite challenging for any company at this point of time. So, we are fortunate that we were able to pass on a lot of price increase to the customers and we have higher price value additional products, but in future the cost will always supply like the freight has increased by 40%, but fortunately we were able to so, Anand I would like you to comment further on this, but these are my take on this.

Anand Sharma: Yes. So, on the other expenditure side, it's around 85% is the variable cost which includes manufacturing cost and selling overheads. Only 15% are the fixed costs which includes our office expenses, rent and repairs to building, machinery, insurance, etc. etc. So, maximum 85% is the variable cost which is varies with the sales and production level. The question which is coming because of the increase in the other expenses in the quarter four vis-à-vis to the quarter three, as I said earlier this is mainly because of the export freight cost increase substantially in quarter four which is 45% higher than the quarter three, otherwise, all the cost are within the parameter.

Moderator: Thank you. The next question is from the line of Ronak Vohra from AUM Advisors. Please go ahead.

Ronak Vohra: I have two questions, first one being can you share the volume details for quartz and stainless-steel sink for the year?

Anand Sharma: Yes. So, I will provide you, in the current financial year we have sold quartz sink which is 4,13,476 units to be precise, against the last year 386,751. The volume growth is 7%, value growth is 19%. On the steel sink side, we have sold 68,852 sinks against last year 66,331 sinks, Volume growth is 4% and the value growth is 10%.

Ronak Vohra: Okay sir. Sir and just some clarification you said Menard for US the new tie-ups?

- Chirag Parekh:** Menards yes.
- Ronak Vohra:** Okay. And in the near term, say next year any kind of margin guidance that you can give?
- Anand Sharma:** So, on the margin side as I said, we will have stabilized margin around of ~22% to 23%. Looking at the volumes and the growth perspective and we have a very tight cost control, we think we should be able to maintain our current trajectory of 22% kind of mark.
- Ronak Vohra:** By FY22, we can do a minimum of 6 lakh sinks for quartz?
- Anand Sharma:** See, looking at the current pandemic scenario it is difficult for us to predict for the whole financial year, but yes, we are geared up with the facility, we faced a lot of capacity issue in the last financial year which we are solving, and we hope that things will stabilize.
- Moderator:** Thank you. We'll take the next question from the line of Keval Ashar, Individual Investor. Please go ahead.
- Keval Ashar:** Two questions from my side, so the first is regarding the domestic presence. So, what are the initiatives that we are taking to increase our domestic presence as well as the brand awareness of Acrysil?
- Chirag Parekh:** So, like I said we are upgrading our showroom and our branding activities. Like I said that we have the whole dealer network categorized into three A, B, and C category, which actually in our term we have given different names, but in the A, B, C category we try to upgrade all the C into B and B into A. What happens is by doing this, you have a larger portfolio of products on display. And wherever we have been able to do, we have been able to increase volume and a better price realization because we are seeing the customer that's coming to buy a sink will also buy the appliances along with the sink, so that's one.
- Number two, we have also seen the branding activities of our company outside the showrooms, which has now been aggressive from our side. So, by this year, you will see a lot of branding of Acrysil happening outside the showrooms, which is actually a free advertising, it is probably the best and efficient way to do it. So, we have started focusing into that.
- Third, we are going to step up our digital marketing spending on making more YouTube videos for the built-in appliances, how to use, how it is user friendly. We are also going to do a lot of videos for our kitchen sink products, we have launched the new work station in our sink, where the sink is just not for washing, but you can actually do a lot with the kitchen sink. So, a lot of new initiatives stepping up from our side for the domestic market. Also, we are in talks with one of the celebrities in India, which is an upcoming and very prominent celebrity which we are talking to and mostly the contract should be done post pandemic. And so that will also give a lot of boost to the branding and sales activities in India.



*Acrysil Limited
May 21, 2021*

Moderator: Thank you. Ladies and gentlemen due to time constraint, we will take that as a last question. I would now like to hand the conference over to Mr. Chirag Parekh for closing comments.

Chirag Parekh: Thank you all. I would like to take the opportunity to thank everyone for joining on the call. I hope we have been able to address all your queries, for any further information kindly get in touch with Strategic Growth Advisors, our Investor Relation Advisors,. Thank you all once again for joining this call and we wish you all the best for your health and safety of your family. God bless. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Acrysil Limited that conclude this conference. Thank you for joining us and you may now disconnect your lines.