SOMANY

Date: 6th August, 2024

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai — 400 001
Scrip Code: 531548

National Stock Exchange of India Ltd. (NSE)
Exchange Plaza,
Bandra Kurla Complex, Bandra (E),
Mumbai — 400 051
Symbol: SOMANYCERA

Dear Sir/Madam,

Subject: Transcript of the Earnings call for Q1 of FY 2024-25 pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

In reference to our earlier letters dated 24th July, 2024 & 2nd August, 2024 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the Transcript of the Earnings Conference Call on the Financial Performance of the Company for the Quarter ended 30th June, 2024 held on Friday, 2nd August, 2024.

The above information may also be accessed on the website of the Company at www.somanyceramics.com.

This is for your information & records.

Thanking you,

Yours Faithfully,
For Somany Ceramics Limited

Ambrish Julka
Digitally signed by Ambrish Julka
Date: 2024.08.06 13:40:20 +05'30'

Ambrish Julka
Sr. GM (Legal) & Company Secretary
M. No. F4484

Encl: as above

"Somany Ceramics Limited Q1 FY '25 Earnings Conference Call"

August 02, 2024

MANAGEMENT:	**MR. ABHISHEK SOMANY** **MD & CEO, SOMANY CERAMICS LIMITED** **MR. SHRIVATSA SOMANY** **HEAD - BATHWARE, SOMANY CERAMICS LIMITED** **MR. AMEYA SOMANY – SOMANY CERAMICS LIMITED** **MR. SAILESH RAJ KEDAWAT** **CFO, SOMANY CERAMICS LIMITED** **MR. KUMAR SUNIT** **HEAD - STRATEGY & IR, SOMANY CERAMICS LIMITED**
MODERATOR:	**MR. NAVIN AGRAWAL** **HEAD, INSTITUTIONAL EQUITIES, SKP SECURITIES** **+91 98200 27446 | navin.agrawal@skpsecurities.com**

Moderator: Good day, ladies and gentlemen. Welcome to Somany Ceramics Limited's Q1 FY '25 Results Conference Call.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the Management's Opening Remarks. Should you need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Navin Agrawal – Head, Institutional Equities at SKP Securities. Thank you, and over to you, sir.

Navin Agrawal: Good afternoon, ladies and gentlemen. On behalf of Somany Ceramics Limited and SKP Securities, it's my pleasure to welcome you to this financial results conference call.

We have with us Mr. Abhishek Somany – MD and CEO, Mr. Shrivatsa Somany, Mr. Ameya Somany, Mr. Sailesh Raj Kedawat – CFO and Mr. Kumar Sunit, Head, Strategy and IR. We will have the opening remarks from Mr. Somany followed by a Q&A session. Thank you, and over to you, Abhishek.

Abhishek Somany: Good afternoon ladies and gentlemen. Thank you for coming on to our Q1 FY '25 Conference Call.

As you can see from our Results, it's been a very tough quarter. There has been a muted demand, and it got further aggravated with the extended elections across and the extended heat, but it's been a flattish quarter.

As far as sales volume is concerned and also as far as value is concerned, the receivables, however, the balance sheet, however, improved. The receivables went down by another five days. Average realization has gone up Q-on-Q. It's only about Rs. 3 Q-on-Q. That generally is seen because in Quarter 1, most of the non-value-added products get sold. So, we have been able to maintain no serious discounting or anything like that. So, on the flattish quarter, there was no pressure from our side to further improve the Rs. 10 crore, Rs. 20 crore to sales, and therefore we have been able to further strengthen our receivables. Realization has gone up Q-on-Q.

Capacity utilization obviously from Q4 has declined, but if you look at it from last year, Y-o-Y, that's gone up to 81%. Last year, Y-o-Y was 70%, and this year is 81%. Q4 being the best quarter, so that's always higher. So, from that point of view, it's down from 89% to 81%.

Operating margins, obviously, as far as tile industry is concerned, I have said that in the past, and I will say it again, that most of our EBITDA comes through capacity utilization, and the minute capacity utilization is declined, we have a fall in EBITDA consequently, and so in PAT.

But having said that, we have been able to maintain our EBITDA, although our sales have been down. Costs are up, obviously, because the increments have already been given. So, that's factored in. That's an analyzed increment for all the people. So, from that particular head, the costs are up.

But otherwise, we have been able to mitigate the other cost increases by efficiencies and better management. So, we have been able to maintain the operating margin at 8.5% versus 8.7% Y-o-Y. Gas prices have helped us. They have been largely stable during the quarter, and going forward also, we believe that this would be largely stable.

As far as the other capacity utilization is concerned, which is sanitaryware and faucets, sanitaryware ran at 96%. That is up from the previous levels. This is more towards, again, we are trying to push more and more towards value-added segments and faucets has been at about 90%. But in faucets, I must remark that this 90% is on one shift. So, we do have enough capacity built in if we had to run another shift. But historically, we have been running only one shift. So, there is more than enough capacity built in case the market had to turn for the better.

As far as our segment revenue is concerned, in Q1, FY '25, Ceramics was 35%, Y-o-Y is up 1%, PVT was 28%, sorry, Ceramic was 35%, Y-o-Y is down 4%, PVT was 28%, which was flat, GVT is 37%, which YOY was 33%. So, Ceramics has been replaced by GVT.

The brand spend is going to be maintained annualized between 2.75% to 3%. However, the brand spend in Quarter 1 is generally lower. So, it's at 2% in Quarter 1.

Working capital days have also largely been maintained at approximately 13 days in Q1 as compared to 8 days in Q4.

We are quite positive on this particular year. We have our Max plant up and ready. That's the only subsidiary which is still the newest and it's at a capacity utilization of about 35%, 40%. We are seeing that that is steadily increasing. So, that's going to be the green shoot for next year, which will bring up value growth. And otherwise, this year we are still looking at a double-digit growth, looking at mostly driven by volumes.

EBITDA margins, like I mentioned earlier, with the caveat of gas prices not spiking, we should be able to improve 1%, 1.5% EBITDA basically on the riding on the better capacity utilization and better product mix and also a 10% plus growth or double-digit growth over there.

There have been few green shoots out of the budget. The investment of 10 lakh crores under the PMAY for the 10 million new houses should help the tile industry in future. Otherwise, all the new launches which have happened in the builder segment, in the private builder segment which we have witnessed over the last 18 months, all that would come into play in from the end of quarter 3 onwards.

I would want to touch upon a little bit about exports. The exports have improved since the lows of January and February where it had gone down to Rs. 1,300 crore, Rs. 1,350 crore levels. It's come back to Rs. 1,650 crore to Rs. 1,700 crore levels per month between April, May and June. So, this steadily is going up. This is also a very, very positive sign that when the freight rates are at record high, the exports have still come up from the Rs. 1,350 crore levels to Rs. 1,700 crore, Rs. 1,650 crore levels. So, this is something which will keep aiding the tile industry from India. So, this is as far as the opening statements are concerned.

I would now like to open the floor to any Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Keshav Vijay Ratan Lahoti from HDFC Securities. Please go ahead.

Keshav V. J. Lahoti: Sir, this quarter our volume has been more like, you know, 1% de-growth or possibly the industry leader have done a way good. Normally we see you and industry leader grow in line. So, what is the take on that? And what is your volume growth guidance for this year? And what sort of margin you are looking?

Abhishek Somany: So, if you see the industry leader, there has been a Rs. 17 decline in realization. Our decline has been very little. They have launched a particular kind of a new line which is a cheaper line. We hadn't done any such thing right now. So, it has been a tough quarter. My de-growth from a volume perspective, I mean, from a value perspective is just about Rs. 8 crore, Rs. 9 crore. We didn't want to push the system. We didn't want to choke the system because we know we are getting into July and August which are generally rainy months. So, we stayed away from that. So, our balance sheet is healthy. Our dealers are healthy. My receivables are healthy. We are still looking at a double-digit growth and I don't think there should be an issue with all our plants completely up and ready as far as we are concerned. So, our DSO is down by 5 days as you can see and also our realization has been maintained.

Keshav V. J. Lahoti: We have been talking about pick up in tiles demand. Has anything played out so far? How has been the July month?

Abhishek Somany: July has also been a tough month. After the budget, it's been a tough month. But we do, it's been better than May and June is what I can say. But it has been a tough month. So, it's not that it's a wow month considering that we are done with the elections and done with that. But it's not a great month. But it's better. It's better than May and June. It has seen a growth.

Keshav V. J. Lahoti: Can you please give the fuel cost in Q1 FY '25 region wise?

Abhishek Somany: The three regions which we are talking about, the north region, the west which is Morbi and our Ahmedabad plant and also south. So, Q1 FY '25, the Kassar plant is at Rs. 43, last year was at Rs. 45, Rs. 46, same quarter. Morbi is at Rs. 45 a standard cubic meter, last year was at Rs. 43. So, this is up Rs. 2. South is at Rs. 47 and last year it was at about Rs. 55.

Keshav V. J. Lahoti: And the current prices?

Abhishek Somany: I am sorry?

Keshav V. J. Lahoti: Current prices are same? Current price level?

Abhishek Somany: There has been no change in the prices I have given for last quarter. I mean, if there is a change, 50 paisa or Rs. 1, plus or minus, but nothing, no significant change. Do consider that, I would like to mention that do consider that more and more of our spray dryers keep moving to biogas and we are experimenting in cheaper and better biofuels.

This is something which is new to us in the last two years considering that for 50 years we have been running the plants on gas and partly on spray dryers on coal. So, this is a whole new subject. We are keeping on experimenting on new fuels, new formulas to see how we can bring the cost. So, that also comes into play here, not only gas. So, do keep that in mind.

Moderator: Thank you. The next question is from the line of Pankaj Tibrewal from IKIGAI Asset Managers. Please go ahead.

Pankaj Tibrewal: I am just saying that in this quarter when it was a difficult quarter in terms of volumes, how has been your cash flow discipline as you navigated this difficult quarter? Can you just take us through that part?

And second, when we speak on the ground, Simpolo seems to be doing quite well. We saw the volume growth of Kajaria. Does that mean that we may have lost a bit of market share in this quarter or probably it's not the case there? Some light on that. And from a two, three year perspective, how we should visualize the company in terms of size gains, because some of the unlisted players are also getting very aggressive on the market share gain? So, these are the three questions.

Abhishek Somany: So, I will take the first one, which is one part I will take and the rest of the part I will ask Sailesh and Sunit to pitch in. So, as far as our cash flow is concerned, like you have seen, we have been able to maintain our average realization. We have been able to go down five days on DSO. The rest of the cash flow, which is the nitty-gritty of the cash flow, I would let Sailesh and Sunit pitch in and then I will come back for the next two questions. Go ahead.

Sailesh Raj Kedawat: For our cash flow, if you see, we have done close to 50 crores of EBITDA this quarter. And there is some money which has gone into working capital. There is working capital days have gone up by 5 days. Around 25-30 crores have gone into working capital. We have been able to be net positive from operations. Maybe around 15-20 crores is what we have been able to make from operations and we have not done any major CAPEX. So, we are net-net positive this quarter. There are no CAPEX which has happened in this quarter. And we are looking forward, next three quarters, I think we are looking further for a very positive cash flow, because there are no major CAPEX which are planned.

Abhishek Somany: I hope that answers part of the question. The second question is on the market share, which you have mentioned two players, namely Kajaria and Simpolo. So, my response to that is that Simpolo is in a completely separate segment in which he is growing, both value and volume. We are nudging up in that particular segment, which is a large format tile.

So, if you see Simpolo, he probably will have a reasonable degrowth in the bottom end of the prism. But his top end of the prism, because he has been in this game for the last five, six years, he has been able to leverage that.

But that is something which I have said in the past, that with our Max plant, which started in August, sorry, in 3rd Quarter and launched in December, we have been able to do a reasonable amount of sales there. I can take you offline small nitty-gritty numbers, which I would not want to do on public forum. But I would take that. I will give you the numbers as to how we have grown in the big tile segment.

So, there has been no market share loss there. In fact, we have gained market share as far as Somany is concerned, because we have sold a lot more of the big format, not as much as them.

As far as Kajaria is concerned, I think the answer to that is that they have launched a new product line, which does not bear the name of Kajaria. There is a new brand which they have launched at the bottom end of the prism. That's driven a large part of the sale. So, have I lost any market share, Kajaria to Somany? No, I have not. So, that is the answer for the market share perspectives between the two brands which you mentioned.

The third question was, how do we see the company three to four years down the line? I think our bread and butter is going to be the middle end of the prism. We are further solidifying that particular product portfolio.

We are doing a lot of balancing equipment within our plants to further improve our line balancing, which we have spoken in the past to improve our ROCE. So, any capital employed which is not as well utilized or any capital employed which is land vacant, we are doing some line balancing to make sure that how we can further fortify the bottom, at the middle end of the prism.

As far as the top end of the prism is where Simpolo is today probably the industry leader in that particular segment and there are one or two other very, very niche brands, that is something which will take a year or two where with our Max plant, we are going to even penetrate that, but we are not getting super obsessed with that because the bread-and-butter segment is the middle end of the prism.

So, we are fortifying that and these both put together plus the sanitaryware and bath fitting, where we are again fortifying the sanitaryware and bath fitting segments, we are looking at many more SISs, many more showrooms, many more SIS main showroom and showroom, shop and shop and also exclusive showrooms.

So, both of these segments put together which is rather three segments, the middle end of the tile segment, the top end of the tile with the Max plant and sanitaryware and bath fitting, we are looking at, sorry, I will just repeat the last 10-20 seconds.

So, I was saying that at the top end of the prism driven by Max fortifying the middle end of the tile segment and the sanitaryware and bath fitting put together we should be looking at a double-digit CAGR growth for the next 3-4 years.

That is how I look at the company, Pankaj, where we are further fortifying the middle end of the segment and I would be happy to get on an independent call with you to explain a little more about this.

Moderator: Thank you. The next question is from the line of Akash from UTI Mutual Fund. Please go ahead.

Akash: Just wanted to ask, in tiles industry, do you believe the term H2 FY '25 or let's say by FY '26 certainly, there will be improvement in volume growth across the industry?

Abhishek Somany: Yes, absolutely, fueled by export, which is growing, and also fueled by all the new apartments and residential colonies which have been announced, they will all start taking up tiles because currently all of them are in the construction mode. So, the next three to four years, great for the tile industry and volume will improve on both ends.

Akash: And sir, if we assume this that let's say by FY '26 things should certainly improve, then is there a possibility of we delivering close to 15% volume growth or it can be more than that or it won't be a stretch, I mean, any rough….

Abhishek Somany: I think what I can stick my neck out is of a double-digit growth whether it will be 15 or 12 or 18, too early to say. So, I would restrict myself to saying a double-digit growth.

Akash: And sir, if you can briefly help us understand the key levers that can help you improve margins to say around 10%, 11% over the next two, three years at least?

Abhishek Somany: So, if you are looking at margins at 10% to 11%, that is something which we have guided for any which ways and the only caveat there is the gas pricing not spiking and that doesn't seem to be. I think the three levers are, of course, growth between the very high single digits to decent double-digit growth, which basically culminates.

I am not saying that we will do high digits, but I am just giving you the levers. We had a double-digit growth. What happens is that your capacity utilization becomes much better. So, capacity utilization is a big lever for EBITDA and also like I mentioned in the earlier question, fortifying the middle end and the top end of the prism which is more for value addition. So, these are the two big levers for us to bring our EBITDA.

Akash: Any thoughts around exporting tiles? Any thoughts around that segment of the market?

Abhishek Somany: So, export is largely a Morbi phenomenon. As far as we are concerned, we are pushing as much as possible on export, but there are two issues. One is the Morbi guys gave extended credits and open credits, which we are not willing to do.

The second thing is there is a lot of Morbi players which are dampening the brand India because they are producing such pathetic quality for export and sending such pathetic quality abroad that it is dampening brand India. So, I am not saying all of Morbi is like that, but most of the Morbis are that. There are good people in Morbi who are also getting affected like we are in terms of export. But I think as and how the export keeps growing, we would also get a small share, extra share of that.

And one thing I want to highlight here is when Somany talks of export, we do not include the SAARC countries in our export unlike our competition. So, for us export, so, for example, Nepal is not part of our export figures. That is something which I would like to point out, which has been pointed out to me by my finance colleagues Sunit and Sailesh because all other competition I believe in their figures Nepal is counted as exports.

Akash: And we as of now are selling in Nepal also, right?

Abhishek Somany: I am sorry?

Akash: Sir, we are also selling in Nepal, right?

Abhishek Somany: Of course.

Moderator: Thank you. We have the next question from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Just two questions. Sir, you indicated the launch of one of the competitors at the bottom end of the prism. Sir, can you qualify or give some color on what exactly this means?

Abhishek Somany: Ritesh, I couldn't understand the question. Can you just please repeat?

Ritesh Shah: Sir, in your prior remark, you indicated the market leader, they launched a product at the bottom end of the prism. Can you provide some color over here? And would we have any plans to do something similar given probably that part of the market is growing at a faster rate? How are you approaching this?

Abhishek Somany: Yes, we do have a product. We are going to strengthen that going forward, but I would not want to comment and put any light on their strategy. It would be better you ask them.

Ritesh Shah: Sir, second is you indicated on biogas, what is the underlying economics over here as compared to the blended gas pricing what you indicated? And how much incrementally the biogas can increase on a percentage KCal basis, which can give incremental levers on the Costco for us?

Abhishek Somany: Ritesh, biogas can only and only be used in the spray dryer. So, most of our spray dryers are now moving slowly and steadily to biogas. I think about 70% of our spray dryers have moved to biogas and a little more is left. So, I do not have the blended cost off hand, but I will work that out and we can talk about it. But to answer your question, we cannot move our kilns to biogas. It's only the spray dryers which can move to biogas.

Ritesh Shah: And what could be the costing for biogas?

Abhishek Somany: The kilns can largely run on any kind of natural LNG or LPG or propane.

Ritesh Shah: And sir, what is the biogas costing?

Abhishek Somany: It is very open-ended because, you know, we are using four or five kinds of biogases. So, every one of them has a separate costing in terms of adjusted kilo calorific value. So, it's better that we could do that separately on a call and I can explain that to you because it would be a very long discussion.

Moderator: Thank you. We have the next question from the line of Madhur Rathi from Counter Cyclical Investments. Please go ahead.

Madhur Rathi: Sir, as you mentioned that our competitors believe because of realization declines, is there a situation that the competitive intensity is increasing and the competitor to gain volume is like reducing the prices and we are like we have guided that we will not decrease our prices? So, can we get an effect of this going forward for this year and maybe next year?

Abhishek Somany: I don't think I want to highlight too much on pricing. Prices have been reasonably stable. We are only trying to see how we can improve our realization going forward. This quarter has been a tough quarter.

I didn't want to choke the system by pushing that extra Rs. 20 crore, Rs. 30 crore in the market because that's the delta between my de-growth of 1% to my growth of 2% to 3%. It's basically at the end of the day, it's a Rs. 20 crore, Rs. 30 crore delta. So, we didn't want to choke the system by either discounting or putting a product in which is of a cheaper quality. So, basically that's what we have done.

So, it's not that prices, if I reduce prices the sales could have improved or anything like that. It has been a tough quarter. It's been a slow quarter across the industry. So, you know, I could have done the sales, but then I would have had to repent that in July where the July secondary sale would have happened. I think we are keeping a lot of watch on what is happening at the secondary sale and don't want to unnecessarily choke our dealers where receivables become an issue.

Madhur Rathi: So, we don't find it like our volume targets are very, very possible to achieve this for year, right?

Abhishek Somany: Sorry?

Madhur Rathi: Sir, the double-digit volume target that we have for this year, it will be very much possible to achieve this for this year.

Abhishek Somany: Yes.

Madhur Rathi: Also, just a final question. Sir, in Nepal, we and Kajaria are like adding around 8-9 million square meters of capacity in a 22-25 million market. So, do we see this being a strain on our margin going forward because there will be a very huge inventory coming into that market?

Abhishek Somany: I wouldn't want to comment on Nepal. We had a plant. We bought land there. We were almost going to put the plant there. We have held it back because Nepal, the demand which was estimated at 18 to 20 million square meters per year has gone down to 11 to 12 million square meters and we have capacity now by the end of the year of approximately 20 million there. So, good luck to people who put the capacity there.

Madhur Rathi: Sir, the Max plant that we have currently running at 30% or 40% utilization, so for what utilization can we expect our margins improving by the 11% that we did last year and a 1%, 1.5% increase over that? So, will it be at 80% that we can achieve a 12%-13% of margin, maybe in this year or as the Max plant utilization improves?

Abhishek Somany: Obviously, we are working towards bridging the gap between industry leader and us. So, that goes without saying. So, yes, that's work in progress. Now it's not only going to be the Max plant. If it was so simple, then everybody would have put a Max kind of plant. But I think it's a host of many things where realization improves, your brand equity in the market, how you are penetrating, what you are showing, your distribution, your middle end of the prism, how that is getting fortified, the Max plant, et cetera, et cetera, capacity utilization. So, it's not one lever which improves EBITDA.

Moderator: Thank you. The next question comes from the line of Sneha Talreja from Nuvama. Please go ahead.

Sneha Talreja: I think, firstly on your opening remarks, you mentioned that you were seeing green shoots specifically coming from budgets. But I actually wanted to understand this. Are you seeing anything from the real estate uptick front? We have been hearing about a lot of launches, new execution from all the builders, but haven't seen that amount of pick-up from the tiles. When can we actually see that happening or are you already seeing that happening?

Abhishek Somany: There is a lot of background noise. I can't really get what you are saying other than the green shoot part of it which you asked.

Sneha Talreja: So, basically, what I wanted to check with you is, you mentioned on the con call that a lot of green shoots are visible, especially from the budget front. What I wanted to check is, are you seeing any green shoots from the real estate demand front? We have been seeing all the launches happening, real estate players reporting good numbers. Have you seen that translating into demand for tiles? So, that is the first question.

Abhishek Somany: Yes, I mentioned the green shoot from a very long-term perspective. Obviously, he has announced, the Finance Minister announced 10 lakh crores for the PMAY. It is going to start culminating at some point in time. And the way the government is, we have seen in the past, when they announced something, they get after it, whether it was the Swachh Bharat or whatever it was.

So, as far as the other, the launches which have happened is what I gathered in your question, the launches which have happened from the previous year, there is going to be an upsurge in demand for sure, because behind the wall is what were put pipes, cement, steel, etc.

I think in front of the wall, which is all the finishing items, tiles, sanitaryware, bath fitting, they are all waiting for that demand to come and there are restrictions, etc, etc, these buildings will have to get completed. And there are a hell of a lot of buildings which have been announced and ready to be completed in the next six to eight months.

So, I have been moving a lot in the market with projects and everybody is saying that all the demand is another five months away, four months away, six months away, eight months away, stuff like that. So, clearly, more than us, the entire tile industry is going to benefit from the real estate upsurge, which has happened after a good 10 years.

Sneha Talreja: Secondly, more on Morbi, given that there are 1,000 odd players and demand is weak at this point of time, both in domestic as well as in export, slightly in a muted side, what must be the utilization levels there and what are those players doing? Are they shutting down plants or waiting for pick up to happen or they are cutting prices, credit fees? What's really happening on the ground?

Abhishek Somany: They are doing all of the above. I think they are not cutting pricing, but they, if you see, I get an SMS from Morbi, from traders who have everybody's numbers. They all buy address books, but keep getting SMS.

So, there is this new trend of something called a one-time sale. So, they are taking advantage of this one-time sale when they get rid of certain amount of stocks saying in another way that this price is only limited for this particular stock, but it's become rampant to get rid of their stock and get their working capital.

Just in the morning, one of the Gujarati newspapers said that 200 units have shut down and I am sorry, 150 units have shut down, another 200 are up for shutting down. As far as the capacity utilization is concerned, I have given to understand it's between 65% and 70% capacity utilization. So, there is more than enough capacity available in Morbi. So, they are doing, yes, pretty much everything from tax evasion to doing this one-time sale to also shutting down plants interim.

So, considering that they generally if you see, Sneha, in the past also, closer to the Janmashtami time, they generally have a shutdown of a month, month and a half. So, that's what's happening. The news agencies just pick it up and blow it out of proportion, but I think the 350, 400 units closing in Morbi at 65%, 75% capacity utilization is one thing, but the other thing is also around Janmashtami, they anyway close every year.

Moderator: Thank you. We have the next question from the line of Jyoti Gupta from Nirmal Bang. Please go ahead.

Jyoti Gupta: My question is on the production side. We have had a CU level of 81% in tiles, 96% in sanitaryware, 90% in faucets. Now the demand in Quarter 2 still remains weak, which I believe is weak. Do we see an inventory buildup? And do we also see that the utilization level is going down in Quarter 2? Which means either the EBITDA or, let's say, the revenue is going to be flat, and it will be better.

The second question is when do you see the demand pick up happening in the 3rd Quarter? Is it after Diwali do you foresee it or a little earlier than that?

Abhishek Somany: So, the major demand, of course, from the real estate and all will pick up H2 onwards, maybe Quarter 4 onwards. But as far as we are concerned, it was a better month than May, June. August should be slightly better. September obviously will be better, much better than June. As far as capacity utilization is concerned, I do not think there will be a huge upturn in capacity utilization as far as tile is concerned. Sanitaryware and bath fitting should be okay. Sanitaryware, there is a caveat that sanitaryware generally goes down a little bit in capacity every year because of rains. That affects the sanitaryware production, the mold production across the country. It's nothing to do with us.

So, having said that, the rest of the production will be consumed. Bath fitting is no issue at all. Tiles would remain here or maybe improve a little bit. We have seen more than enough inventory for us to carry forward with the growth. So, I don't think it will be a flat quarter for sure having June or having July already grown a little bit.

Moderator: Thank you. The next question is from the line of Udit Gajiwala from Y Securities. Please go ahead.

Udit Gajiwala: Sir, one is that you are quite upbeat on the double-digit growth this year, but that entails your 9-month ask rate to go into 14% to 15% kind of a growth, and with July you just commented it is obviously not flat, but you are seeing some growth. So, does that mean that H2 will be something very robust that you are envisaging right now?

Abhishek Somany: Yes, last year also H2 was robust. So, we are looking at even a better H2. So, yes, we are reasonably confident of that.

Udit Gajiwala: And sir, the demand that you are seeing, could you specify, I mean, is it the metros or the tier 1, tier 2 where you are seeing the green shoots to happen?

Abhishek Somany: Yes, Udit, generally, metros are a project market. So, if you see Bangalore, Hyderabad, Pune, Bombay, Delhi, they are mostly project markets where large developers buy tiles. The smaller towns is where the individual homes, which is what we call IHBs. So, I think it's a host of both.

Earlier, if you take prior to 2024, which is last year, I think all of our growth was driven by retail and mostly IHBs, but now we are seeing a lot of traction even in the larger cities where new launches have taken place and all the builders, the more disciplined builders have launched so many apartments. So, there is a lot of traction even in the larger cities. So, it's a host of both.

Moderator: Thank you. The next question is from the line of Vinamra Hirawat from JM. Please go ahead.

Vinamra Hirawat: My question was on gross margins. I want to know the reason for a big uptick in gross margins excluding power and why power was a higher percentage of sales this quarter compared to last year?

Abhishek Somany: I would let my CFO and Sunit to come in to answer this question.

Kumar Sunit: So, our gross margin has gone up on Y-on-Y basis. It has gone up by 230 bps. However, since operating business has not worked properly in this quarter, and we are at a lower sales volume by almost Rs. 8 crore, Rs. 9 crore, whereas overall it has gone up on Y-on-Y basis, largely attributable to employee cost because of annual increments. That's why EBITDA has come down. If you talk about gross margin, it has gone up from 32.9% to 35.2%.

Vinamra Hirawat: So, just wondering on the reason for the increase in your gross margins without power.

Kumar Sunit: The input costs are the primary reason. We have been continuously working on the cost improvements and the stable gas price has also helped us to some extent. So, these are two reasons primarily attributable to improvement in gross margin.

Vinamra Hirawat: I just had a question on government projects. Government is obviously pushing infrastructure massively. Are we targeting any government project? Our competitor recently has dedicated a whole team into targeting government projects pan-India. What is the growth we are seeing there and are we targeting that?

Abhishek Somany: So, a Government project is something which has always been a focus area where about 11% to 12% of our revenue comes from there. And we have beefed up our government projects further, specifically in the south, because north is anyway very strong for us. We specifically beefed up the government projects team in the south.

Moderator: Thank you. The next question is from the line of Utkarsh Nopany from BOB Caps. Please go ahead.

Utkarsh Nopany: Sir, I just need a few clarifications. First, like we have mentioned over the call that our realization has actually improved on Q-on-Q basis in this June quarter, but our calculation indicates that the blended tiles realization has gone down by 1.3% in this June quarter. And like our realization has been under pressure for the past three quarters, so do you see that tile industry pricing scenario is likely to remain big till the time ocean freight rate comes back to the normal level?

Abhishek Somany: So, I will let Sunit answer the specific question, the first one, but let me tell you tile industry is the only industry in the building material segment that if you take a 10-year CAGR inflation and if you take a 10-year CAGR increase in price, tile probably is the only product in the building material which has gone down in price between 60% to 75%. And yes, the industry has grown. There has been no inflationary pressure as far as consumer is concerned for tiles. So, this is how tiles is. It's a volume game, and it's largely a volume game, but to specifically answer your first question, I would let Sunit answer that. He has the figures.

Kumar Sunit: So, just in clarity, I think I can sense that where the calculation you are referring to and probably that is not the appropriate. So, earlier we have been reporting the tiles volume performance segmentwise on a standalone basis, whereas now we graduated to consolidated basis reporting from this quarter onwards. And that's why I think you are comparing our last Q4 reported on a standalone basis versus this quarter reported on consolidation. If you look at the like-on-like basis, last year Q4 consolidated results margin coming to Rs. 317 versus Rs. 320 for this Q1. So, it's up of Rs. 3 sequentially.

Utkarsh Nopany: So, second question is on the collection period, like we have mentioned that our collection period has gone down by five days, but based on the data, which is mentioned in your presentation, it indicates that our data spread has gone up by 9 days from 36 days in previous June quarter to 43 days in this June quarter and it has been trending up for the past four consecutive quarter. So, where do you see your collection period to settle over the next say 1 to 2 year period from here?

Kumar Sunit: No, again I would say there is a misleading while reading the presentation now. So, if you look at the debtors number which is given on our slide, Slide #6, it is clearly visible that it has gone down, absolute number of debtors. And you can easily calculate the DSO based on that number. So, it has improved by 5 days. On March, it was standing at 48 days versus 43 days in June. And in absolute terms, I would say the Rs. 337 crore debtor comes down to Rs. 270 crore.

Utkarsh Nopany: No, sir, I am saying on Y-o-Y basis, like on a Y-o-Y basis our revenue has been down. Last June quarter, our debtor was 231 crore, which has gone up to 275 crore and because of that our collection period has gone up.

Kumar Sunit: Collection period, how do you calculate collection period, or I think if it is slightly granular in discussion, we can connect after, Utkarsh.

Utkarsh Nopany: Sure, sir. Sir, my last question is that for our Max plant, since we are operating at such low-capacity utilization, we might be making very low margin from that plant. So, just wanted to understand at what capacity utilization we can come to our company level EBITDA margin. That is one. And second, what is our ESOP expense booked for the June quarter?

Kumar Sunit: So, Max plant, currently we are operating virtually at very low capacity. It is around 35%-37% which is coming for this quarter, and it would ramp up gradually over next 2-3-4 quarters because it is a different product segment which plants have been put in. And it is a relatively a niche product segment and it will improve. It will increase gradually over the period. So, I believe, difficult to comment any number, but I can give you a ballpark number. So, I believe if the moment we reach to somewhere around 65%, 70% type of capacity utilization for this particular plant, I think this solution should give us a good break-even at EBITDA level.

Abhishek Somany: Sunit, that break-even is somewhere at the 60%, 65% level.

Moderator: Thank you. The next question is from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.

Karan Bhatelia: So, just to continue on the Max plant, wanted to understand the average selling price compared to the average selling price of Rs. 320 at the company level for this quarter, how rich is the product profile at Max?

Abhishek Somany: So, the cheapest product at Max is about 50% higher than the average selling price of Rs. 320. And the most expensive product is double, a little more than double. But we are at 35% capacity utilization. So, therefore, if you see the JV, most of the loss from the JV is only coming from one plant, which is Max. Everything else is reasonably profitable. So, if you see last year, same quarter, all the other JVs were also ailing. So, we did a lot of work to bring all of those JVs in profit. This we knew will be under stress for a couple of quarters because this is not a very easy plant to sell. So, I hope I am able to answer that question. That was, again, 50% for the lowest segment and about double for the highest segment.

Karan Bhatelia: And secondly, on the CAPEX front, now that majority of our CAPEX has been done, how do we see next two years CAPEX shaping considering we are looking at double-digit growth? So, what's the addition in the MSM that we are looking for?

Abhishek Somany: So, look, we are at 81% capacity utilization in tiles, and we were at 89% capacity utilization in Quarter 4. So, we have very little headroom. So, I think for the next 12 months to 18 months we are okay and after that we would need some CAPEX coming in. So, obviously, we started thinking about it. But there is no serious CAPEX currently in the next 12 to 18 months in our plant.

Moderator: Thank you. The next question is from the line of Jyothi Gupta from Nirmal Bang. Please go ahead.

Jyothi Gupta: Sir, I want to know what's the mix of GVT, PVT and ceramics. Because apparently, the concentration in Kajaria, it seems there is an increased share of GVT and that's why there is an improvement in their MSM. Where are we in terms of our product mix?

Abhishek Somany: So, yes, I did mention it in my opening statement, but I repeat it for your reference. I am talking now Y-o-Y. Ceramic is currently this Q1 FY '25 is 35%. Last year same quarter was 34%. PVT is 28%. I am sorry. I am sorry. I want to repeat that. Q1 FY '25 ceramic is 35%. The same quarter last year was 39%. PVT is 28%. Last year was also same as 28%. GVT has improved to 37% from 33%.

Now, having said that GVT keeps improving, now there is no rocket science to improve GVT because the whole market is moving towards GVT. So, I would think that the GVT in the next couple of years is going to reach above 50% also.

Jyothi Gupta: Will that not also improve your realization on an MSM basis?

Abhishek Somany: It's not only the realization we should be looking at. It's the contribution. So, yes, GVT has more applications. So, it would improve contribution, but just by saying that from 37 in the next couple of years it will go to 50% plus doesn't mean that the realization will go up by the same amount because GVT also has various segments. It has the low segment and the high segment which I have said in the past also. So, it's a little more complex than just being simply understood like GVT goes up, so realization goes up, but GVT as a segment will keep growing. Worldwide the entire market is moving towards GVT.

In layman's term, if I had to explain to you, it is moving from CRT TV to a flat TV. That is how it's moving. It's not that those TVs are not sold. So, the old-fashioned flat TVs to the old like

TV. So, that's how the technology is moving. Everything is going to move only a notch up and not a notch down, because the technology of GVT is becoming more and more easy to adapt and also cheaper and cheaper going forward. So, all of ceramic and PVT, not all, but a reasonable amount of ceramic and PVT especially for the floor will move to GVT. So, happy to get on a call and explain to you a little further on this.

Moderator: Thank you. The next question is from the line of Bhavin Rupani from Investec. Please go ahead.

Bhavin Rupani: I just had one question. What are your expectations on industry growth for the year and do you expect our growth will be higher versus industry?

Abhishek Somany: Industry growth in domestic should be a little bit last year we degrew. So, there should be a little bit of growth considering that H2 onward we will have a lot of these residential real estate started picking up and buying material.

As far as export is concerned, clearly, there will be a growth. Last year we did a Rs. 19,500 crore to Rs. 20,000 crore export. I do believe that this should be slightly more than that. How much more than that will be really depending on the freight rates and the global scenario. It's not really only relying on the Indian dynamics. So, Morbi at 65%-70% capacity utilization, freight rate goes down, this should move up to from Rs. 1,700 crore a month to at least Rs. 2,000 crore, Rs. 2,100 crore a month because a lot of the traders are waiting for the freight rates to go down, which is record high as what I have given to understand right now.

Bhavin Rupani: And what will be our expectation versus industry growth? Will be higher or?

Abhishek Somany: We have been always growing higher than industry growth, which is domestic industry. So, that's clearly going to be the case even this year.

Bhavin Rupani: Is it possible to quantify by 5%, sir?

Abhishek Somany: I don't know how much industry will grow. I can quantify what I will grow at, but I can't quantify exactly how much industry will grow, whether it will be a percent. It will be definitely under 5% because a large part of the industry growth will come from export.

Moderator: Thank you. The next question is from the line of Vinamra Hirawat from JM. Please go ahead.

Vinamra Hirawat: I have got a question on debt and debt reduction. In previous calls, we have guided I think for debt reduction in term loans of 35 to 40 Cr annually on a consolidated level. Are we still sticking to this?

Kumar Sunit: Yes, so that is annual repayment. That is annual repayment, Vinamra, which is anyway the schedule and that keeps getting amortized over the period annually basis. That is what we told and as far as debt level is concerned, it is the same debt level we have. So, 335 Cr consolidated we have in March gross debt and the same level is there in June also.

Moderator: Thank you. We will now be taking the last question for this afternoon from the line of Utkarsh Nopany from BOB Caps. Please go ahead.

Utkarsh Nopany: Sir, I just want the ESOP expenses amount, which has been booked for June quarter?

Kumar Sunit: Yes, Utkarsh, it's more of a national cost, but yes, we have a content for Q1 is Rs. 93 lakh as ESOP in our P&L.

Moderator: Thank you. That was the last question in queue. As there are no further questions, I would now like to hand the conference over to Mr. Somany for closing remarks. Over to you, sir.

Abhishek Somany: Thank you so much, ladies and gentlemen, for joining us for the FY '25 Q1 Call. We hope for a better quarter and would welcome you for the FY '25 Q2 Call and the H1 call in probably next quarter. Thank you so much.

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