SOMANY

Date: 11th February, 2025

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 Q3 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 30th January, 2025 & 6th February, 2025 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 and Nine Months ended 31st December, 2024 held on Thursday, 6th February, 2025.

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: 2025.02.11 20:04:29 +05'30'

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

Encl: as above

“Somany Ceramics Limited
Q3 FY '25 Earnings Conference Call”
February 06, 2025

MANAGEMENT:

MR. ABHISHEK SOMANY, MD & CEO

MR. SHRIVATSA SOMANY, HEAD – BATHWARE

MR. SAILESH RAJ KEDAWAT, CFO

MR. KUMAR SUNIT – HEAD, STRATEGY & IR

MODERATOR:

MR. NAVIN AGRAWAL

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Moderator: Good evening, ladies and gentlemen. Welcome to Somany Ceramic Limited's Q3 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the management's opening remarks. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone 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 Limited. Thank you, and over to you, sir.

Navin Agrawal: Good evening, ladies and gentlemen. It's my pleasure to welcome you on behalf of Somany Ceramics Limited and SKP Securities to this financial results conference call. We have with us. Mr. Abhishek Somany, MD and CEO; Mr. Shrivatsa Somany, Mr. Sailesh Raj Kedawat, CFO; and Mr. Kumar Sunit, Head, Strategy & IR. We'll have the opening remarks from Mr. Somany followed by the Q&A session. Thank you, and over to you, Mr. Somany.

Abhishek Somany: Thank you. Welcome, ladies and gentlemen, to the earnings call of Q3 FY '24-'25. As you must have seen the results by now, again, this quarter was weaker domestic demand, and it continued with the lower exports overall for the industry, not for our company, but a weaker domestic demand. However, within this domestic demand, which for the industry was negative, and the export was also negative -- I'll come to those figures. Our sales grew by 4.5% in Q3, which is better than what we did in Q1 and Q2.

Operating margins were maintained at 8.4%, which is similar to the last quarter. Gross margins improved by 1.4% in Q3. Capacity utilization went up from 77% to a little above 80%. Gas price moved up by about 4% in Q3, purely on the account of a little bit of the movement of the dollar, plus a little bit on the natural gas prices on the spot. As you can see, the margins, as I mentioned, have been maintained at 8.5%.

Of course, it's down from the last quarter, sequential Y-o-Y from 9.7%. But from the previous quarter, we've been able to maintain it. As a result, PBT and PAT are also down. I would take you through the segment reporting, which is our ceramic tiles, we have done in quarter 34% constituted of ceramic tiles.

Of sales, 28% was PVT, that's polished vitrified tiles and glazed vitrified tiles, which is the sunrise segment is 38% exactly as per our commentary. Last year, it was 34% in Q3, and we said we will take it up to 40%. So we are at about 38%, and this is continuing to grow, and it will cross 40% very soon. Bathware sales grew. We were very happy with the bathware sales considering all other manufacturers are either flat or negative is what we hear.

So bathware sales are at about 8.5% in Q3. Capacity utilization in the Bathware segment was better than the tiles. It was at 87% for sanitaryware and optimum capacity for faucets. Brand spends were maintained at 2.5% of sales. Working capital was largely maintained. We had a little bit buildup in the inventory. So whatever you see a little bit extra is on the inventory side, whereas the balance sheet has been under check.

And we have not bought any sales. Therefore, our receivables have only gone up by a day or 2, which is in line -- much better than the industry, but in line with our expectations. Our distribution network increased. We added 134 net dealers and 46 showrooms in the 9 months, which is up to Q3.

The guidance, again, is the mid- to high single digits. We do believe that quarter 4 should be slightly better. Like quarter 3, we've seen some green shoots. EBITDA margin, we will be improving or maintaining for sure, but improving a little bit depending on how much we are able to sell. Brand spend will be maintained at 2.5%.

The total debt, inclusive of JV has been brought down. It now stands at INR299 crores, inclusive of all working capital and term loans. Out of this, 78% of the INR299 crores is in 2 entities, which are our newest JVs, Sudha Somany, which is the South JV, which is INR115 crores, and INR107 crores is in the brand-new plant which started only almost just about a year ago, which is the Max, Somany Max.

Out of this, the term loan is INR58 crores and the current maturities are INR41 crores and the working capital is INR101 crores. So we are very, very comfortable as far as our debt is concerned. Asset turnover to consol level is 2.3x. The Max plant, I must say, is getting stabilized. We are now at 51% capacity utilization, and we are doing another launch soon in the month of March or early April, which should take up the capacity even further. But we're very happy.

Again, here, we are playing the patience game and not discounting the product. We are holding on to prices. And that's how you can see that our average realization has not come off, whereas we've seen in the industry pressures on that. We've been able to maintain this by, a, not discounting much and also by selling the more value-added at a fair value.

We do have an exceptional gain of INR9.42 crores with the disinvestment of the 2 JVs and a capital release of INR20 crores, which can be utilized for new strategic investments. I would like to bring to your notice that, we've got out of the 2 JVs. This is in line with our statement earlier that we would be using our capital employed in a much better way.

One of these JVs was not a very profitable one, and that was the reason is because ceramic wall tiles are losing sheen and it is selling less than what it was -- what the capacity of this plant was. Plus also, ceramic wall tiles because it's become so competitive, we have found better vendors in regional areas. So we found a vendor in the north and we found a vendor in the south. So it was only prudent to get out of this JV, so that we can source better, smarter, cheaper from regional sources and get some profit in the bottom line.

So the P&L will look better by disinvesting from this JV. Although, this JV will continue to be our supplier. But by releasing him from a joint venture agreement with us, he now can sell to other people, we being the largest buyer any which ways. But then in that case, the minute he starts using a larger amount of his capacity, we will be able to also buy from it at slightly better and cheaper prices.

The Acer JV was again another exit. This exit was prompted by, again, the same reasons of this particular product losing sheen, which is the normal glazed vitrified tiles. And also, this JV had come of age. We needed some investments here to renovate this plant in terms of the polishing line, etcetera.

And the third reason also was that they exited -- one of the partners sold some stake to Millennium to Inframart. The Millennium Group partners of assets sold to Inframart, and that also was discomfort to us. So therefore, we exited the JV. Again, this would be value creating as far as the P&L of Somany is concerned.

Largely, I think it's been a fairly decent quarter. Like you can see, we have not bought any sales. Our balance sheet is on the check, our free cash flows are only getting better after the buyback which we did. It's getting better slowly. And the first 2 quarters were very muted. So since then, it's only becoming better and better.

We are looking at some other strategic investments, one of which has been announced in the Board meeting this quarter, whereas we're buying a construction chemical business. So I have been talking about it, and this was a very, very small acquisition, and we're looking at this to build up our construction chemical business in various other categories other than the adhesive and the grouting business which we already have.

So this would be something we are very excited of. It's early times. Let's see how we can shape up this company. Very fortunately, that this company, which we're acquiring is in Bahadurgarh, which is literally a 10-minute drive from our existing facility, tile facility. So that makes it easier for us to manage this entity. And it comes with a sizable piece of land and building and a lot of intellectual property in terms of various different formulations.

So now it's a question of strategizing with the partner and seeing how we can ramp these products up in the B2B and the B2B segment. Of course, very clearly, we have a right -- we will be moving up to 100% ownership of this plant in the next 3 to 5 years. So that's already agreed upon as a prepaying acquisition over the next 3 to 5 years. We have 51% currently, and then we will keep moving up from 51% to 100% in the next 3 to 5 years.

So very excited about this new JV, which is -- the new acquisition, which is in line with our products. It goes to the same B2B supplier. So it's all to do with building, whether it's commercial or whether it is residential.

And also, some of the products which this company makes is in line with our existing dealerships. So some of it will flow into the same dealerships and some of it, we will be contracting some other dealership, which again is very exciting times to form a new alignments with trade partners. So very excited about this business.

Having said that, tile remains to be our focus, sanitaryware the next focus, and construction chemicals will be the new foray, but we've been able -- we are doing this because it's a growing business and also the network is kind of common. So that gives us a lot of comfort, just like when we started adhesives.

So this is it. And I would now open the floor to the Q&A. Thank you so much.

Moderator: The first question is from Sneha Talreja from Nuvama.

Sneha Talreja: Just wanted to understand demand perspective from your end. Is it higher…

Abhishek Somany: Sorry, Sneha, you're not -- you're cutting off. Not been able to hear you.

Sneha Talreja: Sir, is it better off?

Abhishek Somany: Yes.

Sneha Talreja: Yes. Just wanted to understand the demand perspective from your end. We have seen I think I don't know which H2, but we always hope that demand would revive in H2. But somehow we have not yet seen that. And with the amount of completions that we would be seeing on ground, I just wanted to miss out -- I mean, just understand where are we missing this demand in terms of?

Abhishek Somany: I don't think we're missing the demand, Sneha, first of all. I think we've grown better than the industry. And the Morbi industry is only in negative growth. Some of them are shut permanently, some of them are shut for this whole month of January. So I don't think we're missing demand or we are losing market share. In most areas, we are only gaining or maintaining our market shares.

And I think that question which is where the demand has gone considering so many buildings have come up, we are also looking at when these buildings will start getting into completion and eagerly waiting for it. But to give you some kind of a sneak peek into it, the kind of orders we have secured with the residential builders and some commercial builders in the month of December and also in January, they're very, very positive.

And some of them have started supplies from the month of February, March, but most of the supplies will happen in the first and second quarter onwards. So there are green shoots there, but it is kind of perplexing as to why the IHB, which is the individual home buying is being delayed and deferred, because homes are being made, will have to get made. Tiles are the preferred material, sanitaryware.

There is no choice, but to put a bath fitting on a sanitaryware. So it is a little perplexing. I think this is a deferred purchase, and there is an overall slowdown in the economy. Having said that, I think looking at other people's results in the building material stage, I don't think we are worse off than them, we are only better off. And we've been able to maintain margins.

And most importantly, we've been able to maintain our receivables, which means clearly that we haven't bought sales or we have not sold very cheap quality materials or a cheap quality new brand or anything like that.

Sneha Talreja: No, very well understood on the balance sheet part. I appreciate that effort. On the margin front, given that you also mentioned that, you have secured certain orders on the project front. Will it incrementally lead to any further margin dilution for us given that we have heard leaders speaking on incremental projects order coming in, which has led to certain margin dilution?

Abhishek Somany: Not really. I don't think it is at a certain margin dilution, because we've been able to maintain -- I think we have slightly lower base. We have a little bit of a cushion. We have a slightly lower base on the upper end spectrum of the tiles, which is the large format tiles, etcetera, where some other manufacturers are selling more than us, especially industry leaders. So I think we have a little bit of cushion there.

We are pressing the pedal there to increase that sales, and I think it should be able to compensate. And that's what's happening right now also. So yes, it's a question of what we are selling to these builders. We are not really selling the wall tiles and the standard floor tiles. We are selling GVT tiles. But here, it's a question of selling at slightly cheaper prices.

But if that drives my capacity utilization up, then it kind of compensates for a slightly lower margin on that particular project, because my capacity utilization gives me a lot more leverage in terms of economies of scales and also more importantly, the quality of the tiles that also improves when I increase and run the plants at full capacity. It gives me cost leverages.

Sneha Talreja: Understood, sir. That was helpful. And last question, if I may ask, what would be the current mix of retail versus projects? And also, if at all, you could give some sense on Tier 1, Tier 2, Tier 3 sales for us?

Abhishek Somany: Sneha, that particular mix has remained largely the same, which is 10%, 11% up to 12% is government. And I think, the private sales is still at 7%, 8%, but the kind of orders which we picked up, that will increase by 2%, 3%. 3% -- 2% to 3% is export. So we were always in the 77% to 80% range as far as retail is concerned. I see that coming down to 74%, 75%, wherein the 2%, 3% will get converted to the residential and the commercial private builder sale.

That's what I see in the next couple of quarters. Clearly, we are taking more orders from builders. But please be rest assured that, these orders are not coming at the cost of any receivables. It may come at the cost of slightly lower pricing, but then that I just mentioned, it gets compensated by my capacity utilization.

Moderator: The next question is from Utkarsh Nopany from BOB Capital Markets.

Utkarsh Nopany: Sir, my first question is regarding our tile sales volume in December quarter. So if we see our own and JV tile production grew by roughly 5% on a Y-o-Y basis, but our own and JV tile sales volume de-grew by 7% in December quarter, and at the same time our outsourced tile sales volume grew sharply by 35%, so can you please explain the reason for the same?

Abhishek Somany: Sunit, do you want to take that question, please?

Kumar Sunit: Yes, sure. So, Utkarsh, there is no significant change as far as this mix is concerned. It's by and large in line with the sequential quarter-on-quarter basis. So this is more like a broader change in the sourcing mix, which we have been doing of late. But otherwise, if you see Q2 and Q3, it's largely in line, wherein our own plant is giving us around 28%, 29% of revenue and close to 40% is coming from JV, which definitely will change in next quarter for sure because 2 JVs we are moving out.

So that number will shift from one block to another block from JV to other OEMs. So for that matter, you will find next quarter, OEM will be moving up. But this quarter, OEM will remain around that number, 33%, 34%. So there is a movement of not more than 1% or 2% here and there.

Utkarsh Nopany: Sorry, my question is regarding like, we are seeing a de-growth in our own tiles manufacturing sales volume, but we are seeing a sharp growth in our outsourced tiles volume. So just wanted to know what is the rationale for that?

Kumar Sunit: That is like total...

Abhishek Somany: There's no rationale for it. I think you will -- this is correct. It's all momentary. It depends on what particular product we were making in what particular line. But the minute the demand picks up, obviously, our own manufacturing will be moving close to 86%, 87% capacity utilization and the JV is also at the same rate.

So this is nothing to highlight. It's an aberration on a quarter of maybe a line being shut for some reason in the own capacity, which looks at -- which then seems as a lower capacity utilization or maybe a particular line which had piled up stock of a particular category of product. And for that reason, that got stopped. But this is an aberration.

There's no -- there's nothing by design. By design, very clearly, our manufacturing gives us the best margins. And after that, it's the JVs and then the outsourcing. So the focus will remain to line balance and make sure that our manufacturing is at optimum capacity.

Utkarsh Nopany: Okay. And sir, my next question is on the fuel cost. So if you can just help us what would be the average fuel cost by region-wise for December quarter and what it would be at present? And do you see any impact of a sharp rupee depreciation on fuel cost going forward?

Abhishek Somany: So first of all, the second question first. The decrease in the devaluation of the rupee, the component, which is of the foreign exchange in the gas pricing to that extent, it will improve. It will move up by 1% or 2%, because on a weighted average, everything is not on the dollar component. Only a part of the gas pricing is on the dollar component. So that will obviously increase with the rupee going from an average of INR85 to now closer to INR88.

But having said that, in quarter 3, our pricing overall was INR45. Last year same quarter was INR44 and last full year was INR44. So no major change. Our Northern plant, the pricing was INR43. Our Western plants, all our Western plants, including the Morbi joint ventures were at INR49, and the Southern plant was at INR51. So no real change as far as the pricing is concerned. And this, I am quoting figures only for the natural gas pricing, not for our biomass and our coal.

Utkarsh Nopany: And sir, lastly, I just need a few data points. If you can just give us a sense what would be the capacity utilization of our Somany Max plant in December quarter? And what is the reason for...

Abhishek Somany: 51%, Utkarsh, I have mentioned it earlier. 51%.

Utkarsh Nopany: Okay. And what is the reason for increase in depreciation cost on a quarter-on-quarter basis?

Abhishek Somany: Sailesh, do you want to take that question?

Sailesh Kedawat: Yes. So there is some accelerated depreciation we have taken on some of our equipment, which we have discontinued. So we are doing a line balancing in our Qatar unit. And there are some old equipment, which we have removed and we are putting up new equipment. So there's a one-off charge, which has come in this number.

Utkarsh Nopany: Okay. So the normal run rate would be INR19 crores only going forward?

Sailesh Kedawat: No, no, normal run rate will not be INR19 crores. It will come down because this is an incremental charge which has come in this quarter. There is some more incremental charge which will come in quarter 4, because we are still doing some line balancing. So there are some equipment, which will come out, and there are some new equipment which are getting put. But the normal run rate will be around INR16 crores is what I...

Kumar Sunit: No, no, the normal would be around INR19 crores or INR20 crores. So this quarter, it has gone up by INR3 crores, INR4 crores. So there are -- I would say, normalized amount of depreciation would be around INR19 crores, INR20 crores. INR20 crores you can take.

Moderator: Next question is from Keshav Lahoti from HDFC Securities.

Keshav Lahoti: Just wanted to get a sense, as you highlighted, domestic demand has de-grown in market. So why is that only tiles sector that is degrowing while the same trend we can't see, be it pipes, be it ply segment, be it cement sector. So what is missing in the tiles sector or something like laminate or something gaining market share from tiles? How should we read it?

Abhishek Somany: No, no, nothing is gaining market share from tiles. How you read this is that, if you see the branded segment, none of the branded segment has degrown. Most of the branded segment have either grown or remained flat. It's the entire Morbi sector which has degrown, because a large part of the Morbi sector was exporting, and with exports going from last year, INR20,000 crores or 2,000 -- sorry, last year's INR20,000 crores, this year would be anywhere between INR13,000 crores and INR14,000 crores.

So that has led to added pressure with the Morbi manufacturers. And with the stockpiling up, they've had to shut a lot of their sales. So therefore, there's been a reduction in their revenue and in their production. So -- and also, if the building -- the real estate sector was the earlier question with Sneha, there's so much action with the building and why is it not translating to tiles.

I think that is also a question where a lot of these Morbi guys, who don't have a very strong retail outlet, they're mostly selling to the builders and the builders are not really buying at the same capacity that they should be buying considering that there's been so many launches. But please be rest assured that, tile is the most preferred material as far as wall and floor coverings are concerned.

Obviously, we don't compete with paint, which has a very high replacement market. Neither do we compete with laminate and ply because the areas of application are completely different when you talk of tiles. So tiles, the biggest competition or rather another variant which one can put would be on the flooring would be some kind of natural stone and a very, very, very niche segment of wood. Otherwise, tiles remain to be the most preferred item.

Keshav Lahoti: Got it. One last question from my side. While you have the right to win over builder because normally, you also get an outsourcing business, so if builder might be very price sensitive that way, that way, would Morbi have a right to win over you in builder like?

Abhishek Somany: That's why builders -- if you see Morbi's domestic sale, a good 70% is builder. If you see our domestic sales, 70%-plus is retail. So that's the answer. So a lot of the smaller builders are extremely price sensitive, and they clearly look at Morbi as their preferred vendor and not larger companies.

Keshav Lahoti: Got it. But now as you are being the leader are indicating you are growing at a faster pace on the builder side, so what has changed? Why are builder now preferring you over Morbi? Why you're gaining market share on that side?

Abhishek Somany: No. So I think, the larger builders or better builders across the country were never with Morbi. They were always with the branded players, but those are the builders who are on the long lead where they finish the buildings and the finishing stage has not happened. So the DLF, the Lodha's, the Prestige's of the world are mostly doing with the top 10 brand players.

Moderator: Next question is from Ashutosh Khetan from Asian Market Securities.

Ashutosh Khetan: I just wanted to ask what is the total capex outflow for FY '25 and FY '26?

Abhishek Somany: Could you repeat that question, please? I missed you.

Ashutosh Khetan: Yes. I wanted to ask that, what will be the total capex outflow for FY '25 and FY '26?

Abhishek Somany: Other than balancing equipment for FY '25, which is a new INR10 crore acquisition which we're doing other than the normal balancing equipment, and FY '26, as far as currently is concerned, we have no such plan for any major capex. But I do believe that the way our -- sanitaryware and bath fitting is going, we may need a small capex there to enhance capacity, because I think, we will run out of capacity in the next 12 to 15 months.

If Shrivatsa, you want to add something there as far as sanitaryware capacity is concerned as to when you think we will run out and maybe need a small expansion?

Shrivatsa Somany: I think -- sanitaryware, both -- in both, we need a little bit of expansion -- in fittings and sanitaryware -- because fittings, we're already hitting around INR5.5 crores of production every month consistently for the last 2 months. So we're running almost at 110% capacity. So small expansions that we'll be doing in machine shops and furnaces, etcetera. And on the fitting side...

Abhishek Somany: But when we would require it in the next 12 months?

Shrivatsa Somany: I would require in the maintenance.

Abhishek Somany: So we would require it in the -- post the 12 months is a little bit of -- in sanitaryware and bath fittings. Until then, there is no major expansion.

Shrivatsa Somany: Sanitaryware, a major one over the next 12 to 18 months. And definitely, this fittings, we are already in the process of doing the smaller revamps.

Abhishek Somany: We have a figure of what the amount is for the expansion. It's not going to be nominal. We will let you know, but that we would be announcing or looking at that post third quarter next year.

Moderator: Next question is from Jyoti Gupta from Nirmal Bang.

Jyoti Gupta: Just wanted to know any specific reason that employee costs have gone up by 12%, 13% employee cost in this quarter?

Abhishek Somany: No, it's all to do with sales. I mean, we have got some new people in for new strategic initiatives such as this particular acquisition, which we're doing. But other than that, it is -- all this will go down the minute the sales picks up. So sales has remained flat and some new people have come in, increments have happened. So it's absolutely in line if we had the desired capacity utilization.

Jyoti Gupta: So, what's the kind of sales volume outlook are you actually projecting for FY '25 and '26?

Abhishek Somany: FY '25, '26, we're looking at high single digits and low double digits. But we said that, even last year that we will be doing low single digits to mid -- sorry, low double digits to mid-double digits, and we've now revised it because of the muted quarter 1, quarter 2. But we are hopeful with, what I mentioned in the first question where the builders which have announced their buildings and that's going to come into finishing.

Plus some green shoots as far as economy reviving, the new initiatives from the government towards low-income housing and also the initiatives by the government to increase spending on infrastructure. They already had that desire, but didn't do it for some reason this year. So all of that should spur up the economy a little bit. With that, I'm very hopeful that this would be a very high single digit or a low double digit going forward in FY '25, '26.

Jyoti Gupta: Sir, one more question in terms of freight, ocean freight. Have they started declining? And is the movement on the sea improving gradually?

Abhishek Somany: Yes. Some countries, there's been a decline, but I'm not -- we don't export so much. For me -- sorry to have that figure at the tip of my tongue. So I would -- it would be wrong for me to comment. I would have to get back to you. But please feel free to write to Sunit or Sailesh, and they can give you the figures exactly as to how much it has gone down. I'm sorry, I don't have it on my fingertips.

Jyoti Gupta: No worries.

Moderator: Next question is from Amit Purohit from Elara.

Amit Purohit: Sir, just on split between projects and retail, what would that be? And second is that in the event where somehow the retail growth rates may not pick up so well, would you look to have kind of this kind of margins or 8% to 9% margin or a 10% margin? How do you think about from a medium-term perspective, the outlook on margins?

Abhishek Somany: Yes. I think this was already answered in the previous question in the call was similar, but I'll repeat it, not to worry. What I'm saying is that, yes, there is a little bit of a muted demand in the IHB, which is the individual homebuilding, which is why the retail sales -- my retail secondary sale is to individual homes, you and me, building a home. But the project sale is definitely increasing, and that is not at the same pricing as the retail sale.

But having said that, we have so much capacity, which is underutilized and there is no cost leverage over there. So we get a lot of cost benefits when we use extra capacity and optimum capacity, not in terms -- not only in terms of efficiencies of the working, but also in terms of quality. So whatever little the discounting will happen in the Project segment that will compensate for -- be compensated by extra capacity utilization.

So yes, with the capacity utilization going up and my value-added mix only improving, you can very clearly see it improving. That's why our margins have remained the same. I'm very, very hopeful of the figures you just spoke.

Amit Purohit: Okay. No, I just wanted to know what would be the mix of project in our sales, sir?

Abhishek Somany: I'm sorry. Project, currently is about 10%, 11% is government and about 9% -- 8% to 9% is the private projects, and 3% is our export and the balance is retail. This will move in favor of the private builders by 2% to 3%, which means the export remains the same, government will remain more or less the same, the builders going up which will bring the retail down from 79% to closer to 75%.

Amit Purohit: And for this quarter also, I mean, the retail sales would have been flattish or you would say that, it would have still grown in terms of volumes?

Abhishek Somany: Retail sales has grown in terms of volumes. Because builders haven't grown and export has not grown. So whatever has grown has come from retail only.

Amit Purohit: Okay. I thought the project business has done well, right? Or you were saying that now in this quarter it will be doing well?

Abhishek Somany: Yes, it will start moving from next year onwards. In fact, quarter 1, quarter 2. We've picked up good orders, but those are all sample flats, which have gone, small little supplies which have happened, but the bulk of the supplies or month-on-month supplies haven't really happened.

Moderator: Next question is from Madhur Rathi from Counter Cyclical Investments.

Madhur Rathi: Yes. Sir, I wanted to understand what level of capacity utilization would it take for our plants to get to that 10% to 12% kind of EBITDA margin?

Abhishek Somany: So, it's not only the plant utilization. Of course, I'll answer your question. The optimum plant utilization for any tile company is near 90%. Anywhere from 88% to 92% is the optimum capacity utilization. That does aid. But one thing is to -- currently, we've not been able to use the capacity for any kind of tile, the cheaper format, all the better ones.

So one is to first ramp up capacity in whatever we can sell, and then it would be how we can ramp up that capacity and make it more value added. So both those really play on market margin accretion. But to make it simple, if I move at steady state, today's pricing and today's retail versus projected sales, which is project moving up by 2% and retail going down, we still be able to add about 1%, 1.5% in margins.

And after that, it would be a question of how much extra margin we can get from value-added sales, combined with our efforts on to reduction of other costs.

Madhur Rathi: Okay. So like right now, we are 80% -- above 80%. So in the next year, if volumes grow as expected like high single digit to low double digit, we could achieve a 1%, 1.5% margin improvement?

Abhishek Somany: Of course, of course.

Madhur Rathi: Okay. And sir, on the Somany Max plant...

Abhishek Somany: And I would also reiterate -- yes, I'm sorry, I would also reiterate here that while this is happening, mind you, there will be certain advantages which are going to flow in because of the 2 JVs, which were loss-making, which have gone off the balance sheet. That also will add a little bit to the margin.

Madhur Rathi: Sir, can you quantify what would be that improvement on the margin?

Abhishek Somany: I can give that to you offline. Hello?

Madhur Rathi: Yes, sir.

Abhishek Somany: I don't have it at the fingertips. I would give it to you offline.

Madhur Rathi: Okay. Okay. That will work. Sir, just a final question on the Somany Max plant. Sir, I think is it at a breakeven level right now? Or do we still think that in a quarter it will go to the breakeven level?

Abhishek Somany: I'll require at least 2 more quarters to get to breakeven. Anyway, first quarter next year would be good. So from second quarter next year, it should be at a profitable level, not breakeven, it should be at the profit level.

Madhur Rathi: Okay. And sir, at optimum capacity utilization for that Somany Max plant, sir, what could be the incremental revenue addition as well as margin can we expect from that plant?

Abhishek Somany: Sunit, please correct me if I'm wrong. I think that particular plant can give me INR250-odd crores of revenue.

Kumar Sunit: Yes. Towards the north of INR250 crores, depending on the optimum capacity utilization and the product mix for which it would be manufactured.

Abhishek Somany: Yes. So currently, we are half of that.

Madhur Rathi: Okay. Got it. And sir, margin potential?

Abhishek Somany: That would be a blended margin. I mean, there's no separate calculation for that margin. It's a blended margin which will reflect in our consolidated results.

Madhur Rathi: But it would be margin accretive to our overall...

Abhishek Somany: Yes. Of course, obviously, it's a value-added tile.

Moderator: That was the last question in queue. I would now like to hand the conference back to Mr. Somany for closing comments.

Abhishek Somany: Thank you so much. Looking forward to a better Q4 and looking forward to more initiatives from the government to spur up demand. The economy clearly is lagging, and we need some government spending and to spur up the normal demand. They have done -- it's been a good budget from looking at the -- increasing the disposable income at the lowest level of tax bracket. So hopefully, things should be looking up.

And anyway, from our point of view, the buildings which are unfinished and are getting into finishing stages would give us a better outlook. And with the way the war is looking, both the wars looking to come to some kind of a conclusion, that also will benefit the freight rates and increase the sales of exports from Morbi, which means that there will be lesser pressure in the domestic industry.

So looking forward to all the positives. We are very excited for the new acquisition and also we are very excited for our bathware manufacturing and Max. Other than that, be rest assured that we have our eye on the ball on the balance sheet and will not let that slip come what may. Thank you so much, and we shall be together again for the earnings call of the FY '24-'25. Thank you so much.

Moderator: Thank you very much. On behalf of SKP Securities Limited, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.