



10th February, 2023

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

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

Dear Sir/Madam,

Sub: Transcript of the Earnings call for Q3 of FY 2022-23 pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

In reference to our earlier letter dated 28th January, 2023 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Transcript of the Earnings Conference Call held on 7th February, 2023 is enclosed herewith.

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

Thanking you,

Yours faithfully,

For **Somany Ceramics Limited**

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

Encl: As above





“Somany Ceramics Limited Q3 FY-23 Earnings
Conference Call”

February 07, 2023



MANAGEMENT: MR. ABHISHEK SOMANY – MANAGING DIRECTOR
MR. SAILESH RAJ KEDAWAT – CHIEF FINANCIAL OFFICER
MR. KUMAR SUNIT – AGM (FINANCE)

MODERATOR: MR. NAVIN AGRAWAL – HEAD, INSTITUTIONAL EQUITIES, SKP SECURITIES LTD.

Moderator: Good evening, ladies and gentlemen. Welcome to the Somany Ceramics Limited Q3 FY23 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 "*" 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 and SKP Securities Limited. 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 – Managing Director along with Mr. Sailesh Kedawat – CFO and Mr. Kumar Sunit – AGM (Finance).

We'll have the opening remarks from Mr. Somany followed by Q&A session. Thank you and over to you Abhishek ji.

Abhishek Somany: Thank you so much. Welcome, ladies and gentlemen, to the Earnings Call of FY23 Q3.

We've had a muted quarter. Our sales stood at Rs. 612 crores and consolidated Rs.618 crores. Tiles volume increased by 3.7% to 16.15 million square meters in this quarter. EBITDA was under pressure and as a result, the PBT and PAT also was under pressure. We have done a tile segment revenue if I look at it, we've done about 38% of sales in ceramics, 29% of sales in PVT and 33% of sales in GVT. Bathware we had a very nominal growth, very small growth of just a percent between last year and this year. However, over the year we've grown at about 20%. The tiles volume also on the nine month, we've grown at about 11%. The pressures on the EBITDA was on three accounts, one was that it was a muted sales.

There was a muted quarter in terms of volume and value of sales. On a normal course, this quarter for the three would have been a much better quarter than from a historical point of view, coupled with the muted demand outlook in this quarter, we also had pressures of sales where there was an extra discounting which was done to get the material in the market. There was no reduction in prices per se, but we discounted a couple of percent more to put the material in the market. Other than that, the gas prices were also tapering off but was still fairly high in this quarter. We had festivities all coupled together in this quarter.

We also had pressures of the various Morbi players which were selling at whatever price need be to get their cash flows in order. So, on the one hand, it was muted demand, on the other hand it was the fuel prices and on the third hand it was the festivities, which was the problem from a market standpoint.

From our standpoint, we gave an extra couple of percent of discount in the market and also we had a little extra advertising spend than normally we would do in Quarter 1 and Quarter 2. So, all put together this resulted in a lower EBITDA margin largely impacted by the fuel.

I come to the fuel cost; the fuel cost is an overall fuel cost for about Rs59 - 60. It was slightly down over the over Q2 FY23 about Rs 4 to 5 lower overall than the FY23 Q2. Later if somebody would need we could give you the breakup of Kassar, Morbi and South plants and also the West plants. The average capacity utilization in Q3 was 87% in tiles, about 67% in Sanitaryware and about 62% in Faucets. The brand spent was a little up, like I said, normally we do 2.5-2.6%, this was a little above 3%.

The network did very well. We've already added about 225 net dealers in the 9-month period. A large part of it has come in Q2 and Q3. Other than that, things were very normal apart from what we've just discussed. Another thing I would like to mention here is that going forward we are seeing tapered gas prices which are coming off and we are expecting the export to pick up in the Morbi region due to which there would be lower pressure on the Indian market.

These were the highlights for our results of Q3. I would now like the floor to be open to Q&A. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta: My first question is regarding exports. Now the competitive intensity in the domestic market seems to be much higher because the export volumes seem to be suffering. Do you see any change in that in near to medium term?

Abhishek Somany: I'm saying the export volume has not gone down. It has in fact gone up. It's not gone up in the tune of the manufacturing setup which came up in Morbi in the last one year. The export volume has gone up from about Rs. 1,100 crores to approximately Rs. 1,500 crores a month. This is expected to grow up even further, closer to approximately 1,500-1,600 crores a month. Definitely this has picked up picked steam and this is lowering the pressure on the Indian domestic front. I think with the freight rates now going down, exports seem to be clearly picking up. It was just that November, December, mostly in Europe, the destocking happens looking at Christmas and therefore they come back again alive after the holidays. So, that was a lag effect. Otherwise, exports has picked up and they're only going up further.

Viraj Mehta: Sure. When I talk to some of the peers, for them, the fuel prices have gone down from Rs. 53 - 54 in Q3, the expectation is 46-47 in Q4. We are already at a higher range of that. We are like at 58-59, as you said. What kind of reduction do you see this quarter?

Abhishek Somany: So, the Rs. 54-53 is the rate only for the northern plants I would think, nowhere else, everywhere else the rate is Rs. 59 and this has reduced, very clear, this is reduced from January onwards. If you look at the northern plant, it is reduced to approximately Rs.50 and the western plant it has

reduced to slightly under Rs.50 because GSPCL has slashed its rate and south plant still remains around Rs.60. And this is pretty much the industry, there could be one or two players who have other baskets also like the Henry Hub and the JCC, maybe their rates only for the north could be Rs. 2-3 lower, but that's it.

Viraj Mehta: But for the combined entity, do we look at a 6-7% reduction this quarter?

Abhishek Somany: Yes, I would think so. It already happened, from January, I'm saying that the north rate has gone down from the Rs. 55-56 to about Rs. 50. That's about 10% and west rate has gone down even further. South hasn't come off as much. South was at Rs. 62-63 and that's gone down to around Rs. 59-60. The overall weighted average, it will go down by 6-7% or more.

Viraj Mehta: Sure. My last question would be regarding market share. This year we have grown significantly better than the market because we know how the market has grown and so money has definitely grown faster than the market. What is your aspiration for next year? Let's say if the market leader says the market is to grow at 11-12%, what would be your aspiration of growth in volumes if that were to happen?

Abhishek Somany: I don't think the market is going to grow at 11-12% domestically. That's a correction.

Viraj Mehta: Total.

Abhishek Somany: Let's not talk of total, because all the branded players don't export, right? Where I'm not competing, what's the point of really looking at any market share, so from an export point of view, if I double my export also it's not going to move the needle for me in terms of total revenue, it's such a low base, you understand what I mean? Let's talk of basically the domestic, in the domestic we're fairly confident of again achieving double digit figures, decent double-digit figures. I won't say it would be the 20% odd figures, but it would be on the mid-teens, higher teens is what something we could think of in value terms.

Moderator: Thank you. We'll move on to the next question from the line of Sujit Jain ASK Investment Managers. Please go ahead.

Sujit Jain: Just one question. I just want to ask you how much for you would be demand which is coming from replacement, just to have a general sense and how much would be from new project?

Abhishek Somany: Sir, it's always been very difficult to figure out that. Our best guess scenario is the replacement demand in the tile industry, not for us, but the tile industry per se between 15 and 20%.

Sujit Jain: Would you be more urban centric overall in your distribution?

Abhishek Somany: Urban, yes, but not Tier-1 and Tier-2 towns. Our large part of our sales 75% and more, you can say 75% is coming from Tier-3,4,5 towns, maybe some bit of Tier-2. So, urban, yes I don't think tile has really gone very, very rural. That's something to look forward to in the future. As of now,

we would be in concrete towns and not in the hut towns. That's what we mean by urban and rural.

Sujit Jain: Similar percentages would be for you as well, most likely in terms of replacement versus new project, right?

Abhishek Somany: Yes, sir. The second part of the question, which was urban and the Tier-3, Tier-3, Tier-4, that was for Somany ceramics, that was not for the tile industry. We are very in Tier-2, Tier-3. But, as far as the replacement, that's an industry phenomena which I told you, which is between 15 and 20%.

Sujit Jain: And number of distributors for you as things stand today?

Abhishek Somany: We have approximately on record we have about 3900 or 4000 dealers. But what we bill to is approximately 2400 to 2500 and when I mean when we bill to that means there's a regular billing with these parties.

Sujit Jain: And one last question. While we've seen pick up in the real estate there is some slowdown in terms of bookings of the numbers that real estate companies give out. Do you sense any hampering in terms of real estate demand because of that going forward?

Abhishek Somany: I think the real estate has finally come back after a 10-year lull. If I see across India there's been new projects which are launched and in real estate we are the last to be consumed. Therefore, whatever project gets launched today, we only come into the picture or in a sale situation, 18 months from inception, 18 to 24 months and real estate is a large play for a lot of the Morbi players, so we will see a lot more of the Morbi players applying to the real estate guys.

Sujit Jain: One last question. I joined the call a little late, so pardon me if this is a repetitive question. In terms of your guidance in terms of volumes and over medium term as well.

Abhishek Somany: Medium term is something which you will it's already on Quarter 4 really. For next year, we are guiding a mid-teen growth.

Sujit Jain: You think you can continue that over a three-year time frame?

Abhishek Somany: It depends on how quickly we grow next year. I don't think I can predict three years again the base would have increased, but I do believe that it would be in double digits obviously teens, not double digits as an above 20, but obviously in teens, we should be able to do at least for the next 24 months and then I think we are on a call every quarter. So, I would recalibrate that for you. Next year at least, we're very sure of mid-teen.

Moderator: The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: First is in your initial talk you indicated giving a certain percentage point discounts to drive volumes. I just wanted to understand your thought process from a perspective of price elasticity demand. We are a solid brand; we have Pan India distribution. How is it that you call on a certain percentage of discounts to actually push volumes? I would like to have your thoughts.

Abhishek Somany: Discounts was a terminology I used. They generally incentivize the dealer. You generally put in schemes to incentivize the dealer to pick up material in a muted market. So, there's been no price reduction. Mind you, there's been no price reduction. It is just that we've given schemes. Now schemes goes in many forms, which could be foreign travel schemes, it could be wide good schemes, it could be credit notes given to the dealer. All encompassing, it's been approximately a 1-1.2% extra discounting, which we've done to incentivize the dealer to pick up material in a muted market.

Ritesh Shah: That's helpful, but sir, when we do this, what is the competition that we look at? Is it the organized sector or is it...?

Abhishek Somany: Always the organized sector. We have a 25%, 20% to 25% difference between us and the Morbi players. If we start looking at that, then there's no bottom.

Ritesh Shah: Correct. Perfect. That's very useful. My second question is can you detail on our fuel mix, say LPG, long-term, medium-term contracts, bio-fuel, if at all there is any mix on a quarter on quarter basis, that would be very useful?

Abhishek Somany: Last quarter we ran a reasonable amount of plants, approximately 60% of our plants on LPG. Right? Biofuel is only used for our spray dryers. Nowhere else that's been used from inception. So, we continue to use that. In the northern plants we used to use pre the NGT orders of two years ago we used to use coal in our spray dryers in a chain stop. Now, since the last two years we've stopped using coal and we've had to move to biofuel, due to the NGT orders. In the north it is all biofuel to run spray dryers and so is the case in most of our other plants. But as far as our kilns is concerned, which is the 85% of our energy goes into firing our kilns, 80% of our energy goes into firing our kilns, that we ran 60%, once again, I would repeat of our total production on LPG last quarter, as we speak, the LPG is virtually out because the gas prices have come down and LPG generally goes up in the winter months. That's been the practice. We did not know that because we've never used LPG earlier. Right now, as we speak, I think about 10 to 15% of our plants are running on LPG and the rest of the plants have moved to natural gas because natural gas has become at par or cheaper than LPG. Going forward the way it is looking, I think in the month of February and March most of the plants will go on natural gas until LPG comes down further in the month of April and May and this is completely fungible. Therefore, if LPG comes down a substantial amount than gas, we will move back to LPG. It takes only 6-8 hours for us to move.

Ritesh Shah: Wonderful. Last question. How should one look at the pricing trends incrementally? So, there is cost deflation. Do you think we'll be able to maintain prices or how should we look at this?

Abhishek Somany: Yes, so what has happened is, that in Quarter 2 end and Quarter 3 pretty much the whole amount of the Quarter 3, Morbi had already moved to LPG. Which means that the reduction in gas price which we are seeing in LNG, especially in the Morbi area, that was already factored in, because it was Rs. 60, LPG was then costing them Rs. 51-52. That Rs. 51-52 has gone down to about 49. So, it's not a big difference. This was already factored in the pricing. Therefore, any further reduction in our northern plant and our southern plant that is something we would be able to keep because Morbi's pricing has already factored in about Rs. 50 or Rs.49 a standard cubic meter of gas. In the entire quarter it has already happened. I don't see any other further price correction going forward, because gas hasn't followed under that price.

Moderator: The next question is from the line of Nikhil Agrawal from VT Capital. Please go ahead.

Nikhil Agrawal: Good evening, sir, and thank you for the opportunity. I was hearing that Saudi Arabia they're planning to remove the (ADD) anti-dumping duty on Indian tiles. So, just wanted to know, do you have anything on that? How much would it benefit the organized players if you could give some roundabouts figure or something?

Abhishek Somany: Organized players never really exported to the Saudi when the anti-dumping was not there and when the anti-dumping was there. So, it's a Morbi, it's a Morbi play. So, we don't get affected either way. But for India Inc. from a tile perspective, it would be a great advantage if this has to go. You're very right even we've heard the same, that they're planning to remove it. So, UAE has taken the lead. They have already removed the anti-dumping as we speak.

Nikhil Agrawal: Okay. Actually, I meant that since if the anti-dumping is removed, so Morbi players, they start exporting more.

Abhishek Somany: Yes, absolutely.

Nikhil Agrawal: Indirectly, it would benefit the organized players, right?

Abhishek Somany: That's right.

Nikhil Agrawal: Okay. And anything from the US as well, are they planning to remove the anti-dumping duty or not? Like India, they don't have that on China or anything?

Abhishek Somany: No anti-dumping lead duties are generally levied for five years. It's a definitive anti-dumping duty, of which only a year or maybe 15 months is over. It was put last January, if I'm not mistaken, the anti-dumping on China. So, India has a good headroom. In fact, as we speak, the largest, single largest export to a particular country has now become the US, which earlier used to be the Saudi.

Nikhil Agrawal: Okay, so when is the anti-dumping duty expected to expire on US on Chinese in the US?

Abhishek Somany: I just said, 5 years, only 15 months has gone over.

- Nikhil Agrawal:** And just one more question regarding biofuels you said that our factories won't shift to biofuels going forward?
- Abhishek Somany:** No, biofuel you can only use for spray dryers. You cannot use biofuel even if you want to in kilns. Kilns are only fungible between propane, LPG and natural gas. The spray dryers are fungible between coal, biofuel, various kinds of biofuel and gas. So, whichever is cheaper, we use in most of the plants. In the north, it is fungible, but I can't use coal. In the northern plants, it is fungible between gas and biofuel.
- Moderator:** The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.
- Alisha Mahawla:** Just wanted to understand the increase in finance cost sequentially the number has gone up quite substantially.
- Abhishek Somany:** Yes, I would let Sailesh answer that question, finance cost.
- Sailesh Kedawat:** There's hardly any increase in finance cost. It remains the same quarter on quarter.
- Alisha Mahawla:** Rs. 10 crores has become Rs. 12 crores, which was Rs. 7 crores in the first quarter and a similar amount in Q3 of last year.
- Sailesh Kedawat:** Okay. You're referring to the console number. There are some additional load, there are some additional projects. There is a new project which has come. The finance cost is on account of that project.
- Alisha Mahawla:** We've also seen a sharp increase inventory 9-month number versus March of 22.
- Sailesh Kedawat:** There is a there's a muted demand I think inventory increases across the industry. You would see it across the industry. There's a muted demand. We have ensured that our production units are not shut down. We have continued running them at an optimal capacity because we believe that demand is going to go up.
- Abhishek Somany:** Yes, so the manufacturing has run at 87% capacity, like I mentioned. To that extent, October, November, December were a muted demand and again we're getting into Quarter 4. We don't want to be in a situation where we don't have enough tiles. There's been a little bit of mismatch last quarter of approximately 4 to 5 days if you see historically our inventories in Quarter 4 would have been approximately at the 50-day level, which is currently at the 60, 62 day level. Maybe 4-5 days was a mismatch. The rest of it is on the account of pure muted demand.
- Alisha Mahawla:** By when do we expect this to normalize? Because even for next year, we are saying, in value terms, mid-teens growth, which means that the volume growth will be slightly lower. The build-up of inventory looks kind of sharp from 275 to 400 or is the number in the presentation on consolidation?

- Abhishek Somany:** Even this year over last year's square meter age, we'll put in nothing less than 6, 7 million square meters extra this year in the market. Next year if you put in another 6, 7 million, see inventory is very easy to control. You lower your capacity utilization; you can control the inventory. So, that's very simple to do. But again, that eases the pressure on sales and marketing.
- Alisha Mahawla:** Okay any guidance on the market?
- Abhishek Somany:** Just to clarify, beyond the point, it's a very voluminous material, so beyond the point I can't keep inventory. At the end of the day, the plants do go into shutdown like I did in COVID times, because you can't hold more than it's only this much inventory you can hold in the plant.
- Alisha Mahawla:** Sure understood. Any guidance on when the margins can go back to the double digits that we used to do for the previous two years and the aspiration was to improve?
- Abhishek Somany:** I don't think I can make any forward-looking statements there because there's a serious amount of volatility in gas pricing. But I do believe that if the gas pricing remains the same and we are able to push in the amount of value volume we are planning to, obviously this would keep increasing a couple of hundred basis points over time. But I can't make any forward-looking statement as to when this would happen, owing to the extreme volatility in the gas pricing.
- Alisha Mahawla:** With gas now with Rs. 53 to Rs. 54-odd like you said and assuming it stays at this, can we expect sequential margin improvement?
- Abhishek Somany:** Sure.
- Alisha Mahawla:** If it stays at this Rs. 53- Rs. 54.
- Abhishek Somany:** I would suppose that it would only keep going down month on month hopefully. So, yes, we can assume that.
- Moderator:** Thank you. The next question is from the line of Dhwanil Desai from Turtle capital. Please go ahead.
- Dhwanil Desai:** My first question is essentially the market leader was saying that some of the benefits of lower gas cost will be passed on as a higher discounting. Are we likely to follow that or we think that we'd be able to hold on to our pricing and realization?
- Abhishek Somany:** I think they were at a higher cost than us. I would think that they would be right in saying that in terms of south and west, because south and west we are at the same gas pricing but any advantage which flows through in the north, because north our gas pricing is slightly higher than what we are in the west plant. Therefore, we should be able to get some benefits from the northern plant. In the southern plants we are at a much higher gas price than in the west plant. From that point of view, we have any way having to discount it further because we are producing at a higher cost and the material which is coming in at Morbi is coming at a lower cost because

the gas pricing is lower. Until the south gas price also doesn't start correcting sharply, there we will have to discount. In the west it's a pass through any which way, but in the North I do not think we would have that kind of pressure. we should be able to retain some margins after lowering the gas price.

Dhwanil Desai:

And second question is you indicated that next year also we are expecting meting kind of a volume growth and whatever that we hear from various industry player is that even in the current quarter the demand environment is quite muted. So, what gives you that confidence next year. We will be able to get that meting kind of a volume.

Abhishek Somany:

I think what gives me the confidence for the demand to be picking up is, A. The festivities which happened in October all bunch together is behind us and I think there was an extreme winter which is also behind us and another thing is that a lot of the focus had moved as the economy opening up specially with wedding, marriages etc. that also is something which is behind us and coupled with that we are seeing a revival in the real estate, coupled with that we have seen that the inflation is also peaked out. So, people were waiting for the earlier gentleman had asked that there is muted demand in terms of real estate being booked obvious because the real estate gets hit when the interest rates go up. I think that interest rates cycle also, we will see in the next couple of quarters start going down, so buyer good start coming in again. So, overall I think we should be in a much better position as what we were this year and this year there was another major issue that the dealer was buying only as much as he wanted because gas prices were moving up and down pretty much on a 15-day basis, that kind of volatility, I at least have not seen in the 25 years of my career. If that volatility is not there the dealer is also that much secure when he picks up the stock. So, all of these combined I think we are definitely looking at a much better, next few quarters. However, at the same term I do believe that India looking at the global scenario at least for the next one-year, rural India and a lot of the other parts of India are going to be under pressure. There is clear indication of money market being tight. However, our receivables have been very good but generally the money market is tight. Secondary sales are not happening, so all those do affect but those things will start getting eased out because last year has been a fairly exception year in terms of pretty much all commodity prices going through sky high pricing. So, those are the indicators which we feel that the worst is over and things can only get better from now, unless otherwise another war happens.

Dhwanil Desai:

Just a follow-up on that, I mean do you think that in this entire thesis that you have that next year we will be able to grow at mid teen kind of volume growth, Morbi holds the wildcard in terms of exports if that does not happen as per plan. We may have to relook at those assumption. The Morbi export, if that does not pick up as expected then will we have to relook at those 15% volume growth assumption.

Abhishek Somany:

No, I do not think so because this year also we have grown reasonably well and I do not think we can be as pessimistic as that because while China has an anti-dumping pretty much in the world there is no reason for Morbi not to go up over there also we are seeing that freight rates have absolutely gone bizarre last year which have come-off in the last three months, every

month-on-month it has started going down. There is no reason for freight rates to go up any further. So, from that point of view there is no reason for Morbi not to export, unless and otherwise there is an anti-dumping initiated on India which currently that ek Talwar Jewelry thi of Europe that also is gone away. Europe has levied a 6% anti-dumping. So, we are very safe there, so from that point of view I do not see any reason for India not to do exports.

Moderator: Thank you. The next question is from the line of Gunit Singh from Counter Cyclical Investments. Please go ahead.

Gunit Singh: Hi, I would just like to get some sense on the advertisements and sales promotion expense over the nine months and also for the last financial year 2022.

Abhishek Somany: Last year, we did about Rs.46-47 crores, this year we will do close to about Rs.58-60 crores.

Gunit Singh: Alright, is this spend also related to the muted demand that we see or is it just a routine increase?

Abhishek Somany: As a percentage, obviously because we did not want to take-off anything off the table from advertisement because this is a long-term investment but as a percentage obviously, if you would have put in Rs.50 more crores of revenue in Q3, my percentage would have been pretty much okay. So, somewhere indirectly, directly you are right, it does have an effect, the muted demand has an effect.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial Limited. Please go ahead.

Achal Lohade: My question was with respect to ANP, can you help us the Q3 spend in FY 2023 and y-o-y last year same quarter?

Kumar Sunit: So, in Q3, it is Rs.3 crores current quarter and in nine months we reached to Rs.40 crores plus and we are expected to reach a level of Rs.58-60 crores for the year. So, our spend is much higher in the current quarter Q3. The corresponding Q3 was lower base for various reasons so that was on lower number around Rs.10-12 crores, Q3 last year.

Achal Lohade: And nine months?

Kumar Sunit: Nine months last year was approximately Rs.25-27 crores.

Achal Lohade: Got it, with respect to the demand part of it Abhishek Ji you mentioned that basically the hope is driven by the equation and interest rates and the macro part of it, if I hear you right and exports are expected to remain robust, right? So, from pricing to scenario prospective I know it could be a repetitive question but is it fair to say then the further pricing pressure is unlikely from Morbi in terms of our realization?

Abhishek Somany: Currently, yes you are right because like I mentioned that they had already factored in a lower gas price because they were running on LPG. Therefore, they only moved from LPG to natural gas because it is an easier fuel to handle but the pricing really has not changed for them. So, currently there is no reason for them to reduce pricing. The other reason they were reducing pricing was basically, so the problem is not in the top 20 Morbi players the problem was at the bottom 400-500 Morbi players who were basically so strapped for paying GST, paying for gas, paying for salary, they were willing to sell the tiles at any price, even at a loss to keep running their cashflows. It was devil in the deep sea one side, it was shutting the plant and X amount of loss, one side it was discounting it and reducing the loss. So, I think that was the phenomena happening and as you very rightly know that in Morbi everything happens on two accounts, on cash and on checks. So, I think they had never envisaged that the gas pricing would go so high. So, all their books had gone completely haywire from that point of view and therefore they started selling. So, there is new terminology in Morbi and there is a separate pricing which is called one-time pricing. So, that's what really played spoilsport. I think that seems to be over us because the gas volatility is kind of behind us, I hope so.

Achal Lohade: And with respect to channel inventory, how you see, has the channel already stocked up as Morbi has been pushy and if the other peers have also pushed.

Abhishek Somany: No, I think the month end pushers are always there but I doubt, I do not think the channel is anywhere close to where it used to be in terms of stocking for two reasons. A. It has been very early in the days where gas prices have started coming down. So, they are, anyway we are very skeptical of gas prices going up or going down. Now that it is going down, they are always scared that tomorrow the prices may come-off even more. They are not sure how much the gas prices would come down; they are not sure of who was using LPG and who was using LNG. So, I think they are skeptical and they are tentative to not stock too much and then having a problem of a next month lifting to be at a lower price and their previous month would have been money stuck, so number one is that. Number two is that great indicator is that my receivable cycle is non under pressure, touchwood. My receivable is only become better. So, on one side, I saying that it is muted demand and money market is tight but on the other side. My receivable cycle is the same or slightly better which is a clear indicator that the dealer is buying only as much as he can do in secondary sale. So, he is not stocking too much. The minute, the dealer started stocking that is when you start seeing the receivable cycle deteriorating. So, these are the two indicators with a reasonable amount of confidence I can say that the dealers are not hugely stocked. Obviously, month end they get a little extra stock but not hugely stock like how it used to be earlier.

Achal Lohade: If you could help us with the nine months, what is the cashflow from operation and the CAPEX number consolidate level?

Kumar Sunit: So, largely, it's in tandem to the cash profit generated by the consolidated P&L because there is no major movement as far as working capital cashflow is concerned. In fact, our almost Rs.100

crores is locked-in in additional inventory at a consolidated level. So, adjusting that we are at the similar level of cashflow generated from the cash profit of the P&L.

Achal Lohade: Any number, Sunit, you could help us with.

Kumar Sunit: It is not readily available in front of me we can connect offline.

Achal Lohade: Sure and just last question if I may with respect to CAPEX how do we look at what capacity addition, where and what kind of CAPEX we would look at for FY2024-25?

Abhishek Somany: So, as you know the Somany Max plant which is coming up Morbi at a cost of approximately Rs.170 crores that is the only CAPEX, which is there, partly it is already been done some part of it is still to be done in the next year. So, that is one CAPEX which we are doing. There could be obviously, routine CAPEX around the existing system and as we have just announced we are looking at setting up a JV, we are exploring to set up a JV in Nepal which I think I would be in a better position to tell you exactly what the CAPEX needs would be and how that would be structured may be in the next call.

Moderator: Thank you. The next question is from the line Keshav Lahoti from HDFC Securities. Please go ahead.

Keshav Lahoti: Just wanted to understand why have you increased the ad spent in the stock quarter of Q3 when sales prices were already high what was the idea behind this?

Abhishek Somany: No, these are long-term investment which we do and anyway generally in the Q3, Q4, ad spends are larger because we typically in the tile industry start advertising after the clutter of the Diwali season. So, a little part of advertising happens in that window which we get after the rains and before the Diwali season and most of the advertising kicks in after the Diwali season. So, it generally bloats up if you have seen historically also and Q3 and Q4.

Keshav Lahoti: And what sort of margin you would recommend next quarter and whether the below discount will also further increase in Q4 as fuel prices are coming down?

Abhishek Somany: No, the dealer discount is not related with fuel prices. The dealer discount and schemes are all generally related to how the market is. So, the way it is looking is not superb the market, so may be a little bit of discounting continues in this quarter to push in that extra material we are all also sitting on a decent amount of inventory and capacity utilization is always number 1, on our cards so that extent dealer discounting may happen a little bit not discounting in terms of cash discounting but probably in terms of schemes and incentives. On the other hand, as far as margins are concerned it obviously would be better than the Q3 but how much better. It would only depend on how much the dealer discounting and how the market performs and mostly to do with fuel because fuel goes down but we do not have 100% BIS to, we are not sure exactly how gale really bills us, it is normally on a three-month moving average of the brand but there is a little bit of a slip between the lip and cup. So, as when we would know but yes, definitely margins

much would be better. A. There would be better volume in the quarter and also there would slightly better margins if the gas prices remain the same.

- Keshav Lahoti:** Region wise strength of fuel prices for Q3. I just want region wise strength of fuel prices.
- Abhishek Somany:** Okay, in the north it is approximately Rs.57 in Q3. In the Morbi area it was Rs.62 and in the south, it was Rs.61. Now as we speak, the northern plant from Rs.57 has gone down to approximately Rs.52 and the Morbi area from Rs.63 has gone down to Rs.50 and the south areas remained the same.
- Keshav Lahoti:** So, south is at Rs.60 right now, perfect.
- Abhishek Somany:** Yes.
- Keshav Lahoti:** So, south was Rs.61 in Q3, you said, perfect.
- Abhishek Somany:** Yes, and it remains the same (+/-50) paisa of a rupee.
- Keshav Lahoti:** And one last question from my side so there is a talk about Morbi going for further one-month shutdown. So, what is the scenario and what is your take on this whether this is materialized or not?
- Abhishek Somany:** Okay, that is news to me, I have not heard it and when was they talking about the shutdown if whatever you heard?
- Keshav Lahoti:** No, we just heard a few weeks back.
- Abhishek Somany:** And when what was the timing of that? What were they saying?
- Keshav Lahoti:** We heard that there is extra stock in Morbi, so possibly they might take a further one-month type of a shutdown to lower the inventory levels.
- Abhishek Somany:** I will find out first time, I am hearing this in the last couple of months.
- Moderator:** Thank you. The next question is from the line Karan Bhatelia from Asian Markets Securities. Please go ahead.
- Karan Bhatelia:** Sir, how do we see our bathware portfolio shipping out in terms of revenue and in terms of margins as well for the next two years?
- Abhishek Somany:** Yes, revenue we were expecting a much better growth this year. We should be able to manage a (+20%) growth for sure but the margins are flat than last year. It is at about 12%-13% EBITDA level and it continues to be the same. Next year, we would be focusing a lot more on bathware

so, we should be able to grow at the same pace or even better in the next one year at a higher pace.

Karan Bhatelia: And what kind of dealer overlap do we see in terms of tiles and bathware going ahead and any SKU addition with respect to this segment?

Abhishek Somany: SKU addition keeps happening quarter-on-quarter any which way recently which they launched with some new SKU addition in colored faucets and some other pieces of sanitary ware. As far as dealer overlap is concerned, well 90% of dealers stock sanitary ware like stock tiles but not all of our dealers are dealing with our sanitary ware. The current dealer overlap is approximately if I am not mistaken, I would want to get back to you but what I remember last, when I had asked them is I think about 600 dealers is an overlap which we have. So, good headroom over there to convert other tile dealers who are loyal to us to sanitary ware.

Karan Bhatelia: One bookkeeping question on gross debt and CAPEX outlet for this year?

Abhishek Somany: So, CAPEX outlet I just mentioned the balance amount of the CAPEX of the Somany Max plant is something which will happen during the course of the year that plant we hope to start in August/September of this year, rather fire up in over September of this year and as far as the other CAPEX is concern other than routine CAPEX we are looking at a proposal to set up a JV in Nepal, very early stages, a little more of that would be available for you in the next call but yes we are thinking of putting up a JV in Nepal.

Karan Bhatelia: And gross debt numbers as on date.

Abhishek Somany: So, gross debt numbers Sailesh, I would let you answer this.

Sailesh Kedawat: Yes, console gross debt number today is Rs.523 crores.

Moderator: Thank you. The next question is from the line Aasim Bharde from DAM Capital Advisors. Please go ahead.

Aasim Bharde: Just wanted two clarifications, first on the FY 2024 guidance, the mid-teen growth you talked about was volume, right? And value should be similar level or would that come off despite product mix improving.

Kumar Sunit: No, Aasim, it is just a clarification that mid-teen growth was with respect to the overall growth though it would be primarily driven by the volume but that was for the overall number of growth.

Aasim Bharde: And I do not know if you mentioned it but did you talk about FY 2023 volume growth, nine months you have done 11% would be able to do the same or better for the entire FY 2023.

Kumar Sunit: I think we have given a directional guidance let's keep it that for the time being.

- Aasim Bharde:** Okay, and just last clarification what was the reason for higher financial cost in Q3, I missed that?
- Kumar Sunit:** No, it was clarified earlier also it was primarily on an account of two, one the increasing interest cost whatever continuous increase happen in quarter-on-quarter over last 12 months, that would be broadly an external factor and linked with the repo rate which is consistently going up and second the additional few debts which is coming in our two subsidiaries, two JVs with respect to the expansion. So, these things put together resulted in the additional finance cost year-on-year.
- Aasim Bharde:** What was the gross debt number for six months period, you said Rs.523 for nine months, how much has that increased in Q3?
- Kumar Sunit:** So, Q3 by and large, intact there is no major change in debt number as far as September versus December but the finance cost which you are comparing is year-on-year that was which is one year back. So, there additional...
- Aasim Bharde:** There has been some increase I think Rs.2 odd crores and it has increased from Q1 level as well. So, actually that was basically what I wanted to know.
- Kumar Sunit:** That is primarily because of the rising interest cost which is happening on every bi-monthly basis. So, that is primarily because of that otherwise gross debt number movement is not more than Rs.20 crores September versus December.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec. Please go head.
- Ritesh Shah:** Sir, I just wanted to know your thoughts behind Nepal, if that is possible that is one and notes to account that is point no. 5, which talks about board has approved Rs.115 crores towards Somany Piastrelle Private Limited, if you can just explain these point that would be great sir.
- Abhishek Somany:** Nepal, we have a decent sale and there has been recent increase in duty in Nepal for Indian building material products a lot of them and tiles being a voluminous product. We saw an opportunity to put a small plant there. The market size is nothing very large, so therefore we will put a small plant and we are looking at a decent market size going forward. And we are also exploring the possibility that 75%-80% of the plant gets consumed in Nepal and may be 15%-20% depending on how is the plant structured and what products we make 15%-20% of that plant can also come back to India and bordered towns but largely the plant will be focused towards Nepal. So, that is the view which we took in Nepal. We are in exploratory stage, I think figuring out which product to put, reasonably advanced stages as far as the other thing is concerned of identifying land area etc. So, I will have a lot more data for you, what we are doing in Nepal by the next call. So, obviously it would be before the next call but the next opportunity we will get to speak to you is in the next call and the second question I would like Sailesh to take that up please.

Sailesh Kedawat: Somany Piastrelle today, current structure of funding is that this company is fully funded by the Holding Company, Somany Ceramics only. The current mix is, a mix of debt and equity where we have infused Rs.115 crores of unsecured loans to the company. We had a relook at the funding of the company in having regard to the current market scenario, we found it to be prudent to be funding it more through equity structure. So, this Rs.115 crores predominantly is for restructuring of the loan which is there. So, this money will go and a substantial part of this money will be used for repayment of the outstanding unsecured loans.

Ritesh Shah: Sir, any specific trigger for us to revisit the capital structure for this particular entity?

Sailesh Kedawat: So, today the funding is Rs.10 crores of equity and Rs.115 crores of loan, right? We are putting additional Rs.115 crores investment in this company. Predominantly this Rs.115 crores will be used for repaying the Rs.115 of unsecured loans.

Ritesh Shah: But was there any specific reason for us to do that?

Abhishek Somany: The trigger was to basically make sure that on one hand you are servicing is likely very rightly, 100% of the loan was given by Somany there is no bank loan. So, it was going from one pocket and coming to the other pocket. So, the only reason for this was to give that particular SPV a little of a breather in a muted market and very high gas pricing.

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

Abhishek Somany: Thank you ladies and gentlemen for joining us for the Q3 FY2023 Earnings Call. I hope that this quarter is slightly better and the volatility of gas and various other especially pressure hopefully are behind us so starting to taper off. We do believe in the India's growth story, so continuously putting in more capacity and we will continue to strive to do better margins and better sales. It is going to be a tough quarter and is also looking as tough year ahead but we are quite sure of doing mid-teen overall growth to value and volume. So, hoping for the best and look forward to an Earnings Call in May. 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.