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Stock Code - 530365

National Stock Exchange of India Ltd.
Exchange Plaza,
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Mumbai-400 051

Stock Code: ORIENTBELL

Sub: Transcript of Post Earnings Call for Un-Audited Financial Results for 03rd quarter and nine months ended December 31, 2022

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, please find enclosed transcript of Post Earnings Call held on 02nd February, 2023 at 03:30 P.M. (IST) for Un-Audited Financial Results for 03rd quarter and nine months ended December 31, 2022.

The transcript of the Post Earnings Call is also available on company's website at www.orientbell.com under below path:

Investor Relations Section> Disclosures under Regulation 46 of SEBI (LODR) Regulations> Transcripts of Post Earnings/Quarterly Calls.

Yours faithfully,
For Orient Bell Limited

YOGESH MENDIRATTA
Digitally signed by YOGESH MENDIRATTA
Date: 2023.02.08 19:53:42 +05'30'

Yogesh Mendiratta
Company Secretary & Head - Legal

Encl: as above

“Orient Bell Limited

Q3 FY '23 Earnings Conference Call”

February 02, 2023

MANAGEMENT: **MR. ADITYA GUPTA – CEO – ORIENT BELL LIMITED**
MR. HIMANSHU JINDAL – CFO - ORIENT BELL LIMITED

ANALYST: **MS. POOJA SHARMA - STELLAR**

Moderator: Ladies and gentlemen, good day, and welcome to Orient Bell Limited Q3 FY '23 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 presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

We have with us on the call today from the management of Orient Bell Limited, Mr. Aditya Gupta, Chief Executive Officer, and Mr. Himanshu Jindal, Chief Financial Officer; along with Stellar IR Advisors, Investor Relations advisors. The management will be sharing key updating and financial highlights for the quarter and nine months that ended December 31, 2022, followed by a question-and-answer session.

Please note that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. Orient Bell Limited will not be in any way responsible for any actions taken based on such statements and undertake no obligations to publicly update these forward-looking statements. Documents relating to the company's financial performance are available on the website of the stock exchanges and the company's Investors section. Trust, you have been able to go through the same.

I now hand the conference over to Mr. Aditya Gupta for his opening remarks. Thank you, and over to you, sir.

Aditya Gupta: Good afternoon, everybody, and welcome to our quarter 3 earnings conference call. The sluggishness and demand continued in quarter 3 due to interest rate hikes and growing spends towards discretionary categories, which has created a temporary deferment on purchases. Tile exports have also been below expectations, and this has forced Morbi players to divert production to domestic markets. Powered with lower gas prices, a mix of propane and Gujarat gas, Morbi has significantly increased discounting putting greater pressure on sales volume and profitability. 70% of our volumes coming from outside Morbi has constrained us from matching discounts in our own manufacturing facilities.

Aggressive cost initiatives, coupled with the lowering of gas costs at Hoskote and Sikandarabad now enable us to offer more competitive rates, especially in projects. Retail projects being the single biggest segment where we lost out in quarter 3. December was better. However, quarter 3 revenues have declined by 3.9%. Our core business fundamentals remain intact with collections remained very robust. DSO continues to stay within 45 days. Our vitrified mix has improved to 46% in quarter 3, a gain of 100 basis points over the last year.

We have continued to strengthen our display footprint through exclusively Orient Bell Tile boutiques. So far, this year has been a net addition of 50 taking the count of active OBTBs Q3 to 335. We have also added a net adds of 42 people in the last nine months to enable us to drive the next leg of growth, and we continue to invest in our future. In spite of the downturn in margins, our marketing investments have been maintained at 3.5%, while we work on the new GVT line at Dora, which was announced in the last quarter progresses as per plan.

With this, I request our CFO, Himanshu for the financial and other updates. Over to you, Himanshu.

Himanshu Jindal: Thanks, Aditya, and good afternoon all. A difficult quarter with volumes and sales are not as buoyant as in the past. And in fact, quite contrary to our own expectations, largely driven by the tepid markets and the short-term headwinds. While revenues were impacted, we also had a one-time impact on the cost front as well in quarter 3. These were largely a result of initial teething challenges that we have across the three plants, where we expanded recently. These are largely identified and resolved now. Also, the fuel and power initiatives, especially for our two plants at Hoskote and Dora, where the gas cost continues to remain elevated sequentially have been completed, and we should aid margin expansion going forward.

Coming back to our financial results for quarter 3. We did not compromise or deviate on our agreed strategic targets vis-a-vis branding people, distribution and displays. Our fixed cost thus remained largely flat on a Y-o-Y basis and also sequentially. Our EBITDA did contract by 500 basis points, largely on account of the lower volumes and increased variable versus the last year. Of this, we could have salvaged at least 100, 150 basis points had we been as efficient as in the past. The one-off on cost that I narrated already.

Moving to nine months, our topline was INR 500 crores, which is an increase of 14.5% Y-o-Y of which the volume gain was 4.4% and the ASP increased by 10%. While our EBITDA also expanded to INR 38.5 crores, which is 20% higher versus the last year. The consolidated PAT for nine months was INR 16.1 crores or 3.2% of our sales. On the balance sheet side, while our core working capital cycle has stretched a little as we built inventories for supporting quarter 4 sales, we have largely digested all capex, except the new line, the project which is going on at Dora. Out of our internal accruals and we are still net cash.

I think we can now request the moderator to open the line for Q&A.

Moderator: The first question is from the line of Jojo from Alpha Invesco.

Jojo Shaju: So I have two questions. One, in your investor presentation, you have mentioned that there are some new capacities coming in Nepal, Saudi and other Central Asian country. So do you see the impact on Indian players, especially the Morbi players, sir?

Himanshu Jindal: So Jojo, if I'm clear, what you are saying is what is the impact of these new capacities? Is this what you're trying to understand?

Jojo Shaju: Yes, sir.

Himanshu Jindal: So some of these capacities are already there. Some of these are still under pipeline. Yes, the full impact would only be known ones these capacities are established. So more importantly, I think what we need to understand most of these markets where the capacities are coming up or have already come in traditionally used to be, how do I say, big importers out of India. Today, when the capacities are coming up, you obviously would see a bit of an impact coming on to the export side of what we do as a country.

Jojo Shaju: And sir, second question, what is the peak revenue potential from the new GVT capex line?

Aditya Gupta : The revenue potential from the Dora GVT line?

Himanshu Jindal: So roughly, I would say, anything between 1.5x to 2x. Once the capacity is fully digested.

Jojo Shaju: And sir, can you give some guidance on the revenue for the next financial year and some margin guidance?

Himanshu Jindal: That would be difficult, Jojo. I mean, the stated policy is that we don't provide any guidance's, markets are still difficult. I think we'll go by is how as things progress as time progresses, we'll be in a better position to share something.

Moderator: The next question is from the line of Mr. Achal Lohade from JM Financial.

Achal Lohade: Good afternoon. Thank you for the opportunity. Sorry, I joined in bit late. Just wanted to check a couple of things. One is in terms of the demand scenario, how you're looking at? And also, how is the situation Morbi, especially from the export perspective, if you could give some colour, that would be really helpful.

Aditya Gupta: So Achal, from demand scenario, I talked about that demand is sluggish. And you would have heard of a large number of units in Morbi having shut down. So demand has been sluggish and that is kind of reflecting in the volume growth of the industry, which is a flat or negative. On your same question on the export piece, exports are growing from India, but they are not growing at the rate that they were envisaged to growth.

So we were expecting a figure of about INR 18,000 crores to INR 20,000 crores, for exports out of India. And current sense is that, it will be maybe between INR 16,000 crores to INR 17,000 crores. So clearly, lesser than what was earlier thought of. And this is also kind of putting more pressure in the domestic market because a lot of this capacity, which has been built for exports is now diverting production into India.

Achal Lohade: And if you could help us understand how the gas price currently in Morbi and what is our blended gas cost?

Aditya Gupta: So Morbi is today using two different sources of gas. I would say bulk of Morbi vendors are using propane. And the balance, I would say about -- maybe about 70% would be using propane maybe even more. And the balance 20%, 30% are using Gujarat Gas. Gujarat gas, because of the falling demand, Gujarat gas reduced their prices by INR 7 last month, not last month but actually December I think, month and a half back. And propane is available at, I think, an equivalent calorific value between INR 50 to INR 55 versus Gujarat gas at about INR 56, INR 57, INR 58.

Himanshu: I'll just add to what Aditya said. This was true in December. There has been a bit of a softening now in the month of January. Prices have come off even gas has now blended actual somewhere around INR 52 is what I heard on a landed basis in Gujarat. For propane, is a little cheaper, you know, INR 4, INR 5. That's where economics are today.

Achal Lohade: And sir, if you can give me a broad sense about your gas cost, are we at par with Morbi are cheaper or expensive to that in terms of pure gas costs?

Himanshu: So again, the answer is a little mixed. In our northern plants, we are already seeing gas prices coming off. But in our Southern and Western plants, the price has moved up sequentially, and it continues to be elevated. On a blended basis, we'll be closer to INR 60. For the previous quarter, quarter 3. But yes, Sikandrabad is coming off because this is linked to crude, even same gas, which some of my peers also get. So because of that relationship with crude, the prices are coming off there.

Aditya Gupta: And for our Bangalore plant, we have also moved into propane recently from this quarter. So that will give us a substantial benefit going forward years.

Achal Lohade: And if I can ask one more question on the same. With respect to biofuels, we heard that the market leader has talked about significant increase -- significant mix of use of biofuel in the fuel. What are our thoughts? Where are we on that for our production?

Himanshu: See, we were a little ahead of the curve already because we implemented biofuels at least in our northern plants early. And this is why we got an advantage coming in quarter 2 as well versus whatever we saw on the street. In terms of our other two plants, we have started using biofuels already now in Dora also for spray dryers , in the southern plant, like Aditya mentioned, we have switched over to LPG as a solution. So there is a saving, which is also coming in there as well now.

Achal Lohade: Any ballpark numbers in terms of how much is total biofuel as a percentage of our total fuel consumption?

Himanshu: It's not a very linear equation, actually. Although, like I said, for powder preparation in the dry process plants, we use biofuels. Generally, our infra being fired on gas, except in case of Hoskote, where even in kilns, we are using LPG now.So that's how things are. blended basis, you can say something like 40%, 50% of our fuel requirements post all the projects that we are running today should be broadly in that range of 40%, 50%.

Moderator: Next question is from the line of Keshav Lahoti from HDFC Securities.

Keshav Lahoti: I just wanted to get a sense on how is the demand on domestic front currently and how it has been in quarter 3 and same trend on the export market?

Aditya Gupta: So Keshav, I talked about it. Now from a volume perspective, demand in quarter 3 was sluggish. We've always seen that whenever there is a cost advantage, which Morbi gets, the first instinct is to drop prices and push more product out and which basically down the line leads to the channel partner delaying their purchases, turning down the inventory in expectation of more price drops in the future. So we have seen that. And so the demand has been sluggish.

Especially I would say more so, I would say, on the retail front. I talked about how with the interest rate is moving up with consumers spending more towards discretionary categories. I think home renovation, the pure retail demand has been slower than what we had expected it to be. Going forward, I think the budget yesterday continues with the good work on bigger and bigger allocations on capex. I think almost half of the capex is going into railways and into roads.

And any building and construction, this thing? And also the Pradhan Mantri Awas Yojana, that also has seen significant increase in the allocations. So I think medium to long term, extremely buoyant about the category. Housing is a major need in the country. We are way behind. And as the economy keeps on growing and all, I think we'll see more and more demand for this.

Himanshu: If I can add, So Keshav, there are two or three things from a demand perspective going forward beyond whatever Aditya shared. So yes, post the pandemic, there is obviously an interest in real estate. Real estate has obviously taken price increases, and they launched a lot of new projects in the last three years. A lot of that tiling is supposed to happen in the next one or two years. There are new launches, which are continuing to happen. So that would add to the demand, correct? Tiles being, how should I say non-substitutable with infra spending going up with this being the last year before elections, a lot is on play on the demand side. I think on the supply side and on the export side is where there are certain challenges right now, and we need to see how they play out going forward.

Keshav Lahoti: Is it a fair assessment as to two months exports has picked up. So if the export picked up, possibly the Morbi which is dumping in the domestic market that might slow down and we might see a good growth for the company.

Aditya Gupta: So Keshav, yes, exports – we're hoping that exports will pick up. As you know, our freight rate, and container rates are maybe 20% of what they were year and 1.5 years back. But there are a lot of factors that play here, not just the cost of manufacturing in India, but also how the economies of all these countries where the export go to, perform over the next 12 months. So I think that's a big factor at play. Another thing, which was talked about earlier, Jojo had asked that question. We are seeing new capacities for tile manufacturing being planned in different countries in Saudi Arabia, for example, in Nepal, for example, in Africa, for example. So we have to see how this will impact the overall tile exports from India. But given the fact that Indian tile industry is extremely cost competitive, the most cost competitive in the world today and extremely good quality with a very, very wide range, I think if the importing country demand picks up, exports will really boom from India.

Keshav Lahoti: Okay, got it. One last question from my side. So should we expect a lower realization in quarter four due to a correction in prices, or maybe giving a higher discount to dealers?

Aditya Gupta: So Keshav, historically, quarter four has been a much better quarter for the company, because a lot of projects cannot get closed and pushed through and all. So let's see, I spoke about how some of the gas pricing would be better in quarter four than it was in quarter three, because some of the actions that we have taken, plus in Sikandrabad the biggest plant, the gas pricing is anyway coming down. So we are hopeful, let's see, how the quarter shapes up.

Keshav Lahoti: Okay, got it. Thank you. That's it from my side.

Moderator: Thank you. Next question is from the line of Rohit Suresh from Samatva Investments. Please go ahead.

Rohit Suresh: Good evening sir. Thank you for the opportunity. My first question would be, you just highlighted that retail demand is a bit weak. So maybe in the short to medium-term, are we going to focus more on the institutional part? Any comments on that?

Aditya Gupta: So Rohit we are doing that. see, one thing about tiles is that it's an extremely fragmented industry. If you have to count Morbi and all, there would be nobody who has a double-digit market share. So even when demand is down, it's kind of coming down to a market share game for all players.

And having said that, yes, the institutional market remains a strong focus area. We are seeing post-demonetization, we are seeing bigger and bigger builders coming into play and a lot of building and construction projects, a lot of residential projects being announced in the bigger cities. But nature of our business is that from the launch of our project to the actual tiling state, it is a three, 3.5-year kind of time period.

So our focus on institutional markets will keep on continuing. And I don't see this as idle or kind of a strategy we will be working on both. Our institutional market would be an extremely important part of the overall go-to-market strategy.

Rohit Suresh: Got it, sir. Sir, and my second question would be like you said Morbi is giving this higher discounts and get into the domestic market. Once the export market comes back to normal, do you see them shifting back and focusing on exports? Or do you feel that there may be a shift to an extent the Morbi guys coming back into the domestic market?

Aditya Gupta: I see them shifting to exports, at the first possible -- I think Morbi any vendor would prefer and export order to a domestic order any day. And there are very simple clear reasons for that. For example, an export order, you will get one container load of just one SKU, one design.

So it is much easier for them to manufacture rather than a retail Indian dealer would ask you for 1,000 meters, which is spread out across some 25 different designs, more difficult to manufacture and all, plus all the new plants in Morbi have imported machinery with some kind of an export commitment for getting concessional custom duties and all.

So there is an interest there to fulfil those targets and get those benefits from the government. So with all of this, plus payments are by and large secured through and advance payments and all. While in Indian domestic market, we have to give credit. So at any point of time, the Morbi vendor preferred and export order to any domestic order.

Rohit Suresh: Got it. Sir, and my last question would be on the dealer front, like, what is the response of -- how are the dealers interacting with you in terms of Morbi coming in? So are they -- because in the past, like one or two years, they were focused -- they were more oriented to the branded players and not towards Morbi. So are they shifting towards Morbi because of huge discounting? Or are they still ready to be give the branded company, just some feedback on that?

Himanshu Jindal: See, Morbi is largely commodity driven trades. So they can be of value to a channel partner only for projects, which are price sensitive. And this is precisely what Aditya said, we have tried to narrate via our IR releases that, yes, projects is something, which is at risk in case Morbi increases their, how do I say discounting.

Rohit Suresh: Got it, sir. Sir, thank you so much and wishing you all the very best. Thank you.

Aditya Gupta: Thank you, Rohit. Thank you.

Moderator: Next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Hi, team. Good afternoon. So my first question is regarding, going slightly back into the history. So I was looking at the volume numbers in 2017, 2018, and there were around 27 million square meters. And even in FY 2022, we were lower than that. And if I compare that to our peer set, all of them have grown over that number. So any sense as to have we lost market share? Or what were the bottleneck if you can throw some light on that?

Aditya Gupta: Okay. See, we calculate market share from the court of the listed players. I think you have really gone back for -- I think over the last, what, about two to three years, we have been clearly gaining market share, not as extensively as the market leaders, but I would say that there are only three companies in the listed space, which have gained market share, Orient Bell is one of those three companies in the last three years.

Having said that, your second part of your question is when you talk about volume, see, we have made this -- we are making a shift from much lower end, smaller – low-end products, smaller tile to larger tiles over the last four years. So in a pure volume perspective, you would see, for example, we were doing a lot of at one point of time, our biggest products were 8-inch by 12-inch tiles or 12-inch by 12-inch tiles and all. Those things have changed for us. So there is some of these lower end products where volumes have gone down or a 10-inch by 15-inch tile. So we are not so worried about that this part of our strategy to premium-ize the company and move up our product portfolio.

Dhwanil Desai: Okay. Got it, sir. So taking this forward. So if, let's say, if we look at three years from now, our strategy would be to gain -- so let's say, if industry grows volume at 7-8% and considering that we are a smaller player and have aspiration to be in the top three, does it mean that we will incrementally grow faster than the peers and take market share? And if so, how will it happen? Will it happen through distribution expansion, product expansion, if you can talk about that?

Aditya Gupta: So see, if you were to see post-COVID that is FY 2021, 2022 and 2023. If you see these 11 quarters, you will find that Orient Bell would be -- if market is growing much faster than the industry average. And you would find that the growth rates would be in the top two or three listed players in the company.

So definitely, yes, the ambition is to grow faster than the industry and that is what we also have been delivering, I think, for the last 10, 11 quarters. Your second part of your question, how is it going to happen is going to be a mix of everything. Distribution has to expand. We are doing that. We have programs running for identifying new channel partners and serving them on new geographies also. And in terms of product, as the market keeps on changing. I already mentioned that we are working on premium-izing our product portfolio. The new line of GVT, which we announced in the last quarter, which is going to come up in say, 9 months from now, is for 4x2 GVT. It will –at one shot double our capacity for doing GVT.

And the Hoskote expansion, which we completed in the last quarter, we are now making 4x2 semi vitrified tiles from there. We just launched it 1.5 months back. So all of these things will keep continuing. We are working on slabs. We are selling a good quantity of slabs, which is a product category was almost 0, 5 quarters, 6 quarters back for us.

Dhwanil Desai: My second question is on realization. So if I look at from FY '20, I think our realizations have gone up by 20%. And our -- the market leader was alluding that with gas costs coming down, that benefit will be passed on as higher discounting, even more we players have not taken as much price hike as organized players. So do you think that, that will also mean that our realization with gas costs coming down will again go down to some extent?

Aditya Gupta : So difficult to say because there are multiple factors at play here. One is the gas price definitely. And how the market behaves because, as I said earlier -- there is always somebody or the other in our industry who is going to discount for volumes. Having said that, if you should see the last

2, 3 years, keep aside the last quarter where we had some challenges on the cost side also because of the all the new capacity being put into, the new capacity coming up and there was some disturbances in the plants and all.

You would see that we have secondary kind of grown our margins over the last 2 to 3 years. We would try to retain as much of the gas price benefits that we are getting within our P&L. But having said that, we need to be competitive. And we would not shy away from selectively getting more discounts to get volumes. So let's see. It's just a bit of a dynamic ever-changing play between the volumes and the profitability. A lot of cost initiatives are underway. And if they go into go as per plan, I think we should be able to do well on both fronts.

Dhwanil Desai: And last question from my side. So you mentioned that Himanshu mentioned that our average gas cost was INR 60, I think, in Q3 and costs have come down in some of the plants. So how do you see that cost for Q4?

Himanshu: I think January is the month where we've seen some more reduction coming in the north plant. The other 2 plants are largely flat.. So yes, through the fuel switch that we are doing at all our plants, especially at Hoskote and Dora, we should see some advantage growing into quarter 4. But at this stage, to give you some idea as to where the blended cost would be a little difficult.

Aditya Gupta : But I think, maybe we can safely assume that there will be blended cost for us in quarter 4 will be lower than that in quarter 3...

Himanshu: And there are reasons for it. As I mentioned earlier on my last call also, LPG is something like INR 15-odd cheaper on a landed per SCM basis today versus whatever we are drawing. So that's roughly around 20-odd percent cheaper. So that advantage itself, if I look at my P&L, that's a massive advantage coming in at a plant where we are growing capacity...

Moderator: Next question is from the line of Viraj Mehta from Equirus Portfolio Management.

Viraj Mehta: So if we look at historically before -- after the new management has taken over. Our differential with the market leaders in terms of margins has gone down because when they were making 17-18, we are making 7. And when they started making 15-16, you're still making 8. How do you see this differential? Or what will be the comfort zone that you are kind of targeting over next 2-odd years? Do we see this differential coming down to 2%, 3%, 4% over a period of 3 years?

Aditya Gupta : So Viraj you asked me a very difficult question. So I don't know how the market leaders margins will kind of play. And there has been -- as you very rightly said, there has been such swings from, I think, 19% in the recent past in the down to 12% and 12.2% in all -- so it is plus coming up...

Viraj Mehta: Which is why I'm asking for the differential. I don't know where they will end, but at least to get some sense of your competitiveness vis-a-vis the market leader.

Aditya Gupta : So I think -- how do I answer that I really don't know, Viraj how it will play out. But so I don't want to like kind of -- you're asking me for differential I wouldn't get there.

Himanshu: Yes. Can I try to answer Viraj. Okay. You look at our gross profits more than anything else, yes. Forget about EBITDA for the moment. EBITDA is something, which wherein as and when we build up more volumes, the operating leverage is going to play out. right? So on a gross profit margin, look at it and tell me where we are versus our competition, then we can talk. As I understand last few quarters, I think we have been pretty competitive. In fact, if I'm correct, our gross profit margins on a blended basis have been generally superior than our peers. So again, just to add, this quarter was a one-off like I explained in my opening remarks. There was a slippage in terms of the new plants getting operationalized, etc. If that was to be discounted, my gross margins were still intact largely.

Viraj Mehta: Sir, in terms of -- see, first quarter generally tends to be the best export quarter for Morbi players. And we have also seen propane gas coming down from INR 53 to INR 47 for Morbi players -- do you see this quarter being a INR 5,000 crores export for the whole industry, which will leave a lot of room in the domestic space for players like us?

Himanshu: See, let's look at what happened in quarter 3. Quarter 3, the export market or the exports from the country, whatever data comes in from Mundra suggested that we've done something close to INR 4,000-odd crores. On a YTD basis till until December, the figure is around INR 11,000-odd crores is what we picked up.. So yes, quarter 3 was meaningfully better than whatever we have seen over the last some 4 quarters or so now. And there are multiple reasons to it.

One, very clearly, the container rates have come off, like what Aditya also mentioned, they are down at least 4, 5x from wherever they were. The other play was obviously on the gas pricing in Europe, yes. You would have seen the peaks whatever we saw last year, EUR 300, EUR 350 per megawatt hour or Henry Hub suggesting $10, etcetera. Look at where things are today, yes. Container rates are still cheap, but more importantly, gas pricing on a spot basis for European peers is coming down.

So -- and then there is a complexity around whatever is happening on the other markets where new capacities are coming up. Plus, there is a risk of slowdown as well. Now just for quarter 4, whatever run rate we want to assume it's not going to be significantly different than what we did in quarter 3. So I think 15, 16, 17,000 max is what is possibly the year. Next year, obviously, challenges are there, like we already highlighted.

Aditya Gupta : So Viraj, we are already into the second month of quarter 4, the sense we don't have data, we are not big on experts. But the general sales from Morbi has been that exports have not really been very different or dramatically better than quarter 3 in the month of January. So your question of INR 5,000 crores. I think March, a lot of -- in March and one of the Morbi capacity is taken up by domestic players, because of year end and all. So export takes a bit of a back seat and then comes back in a very big way, as you said, in quarter 1.

So I think INR 5,000 crores would be an optimistic number for the quarter, but let's see. And as I said before, we are not players in the export market. So you have to take what I say about exports with a pinch of salt.

Viraj Mehta: And can you post the expansion that we have completed, how much time do you think you will take to reach a reasonable utilization of the expanded capacity. In your view?

Aditya Gupta : So I think we have a plan where we are working as per plan. Things are going ahead as per plan so far. And typically, Himanshu and I have answered that we are looking for payback periods of you know, we are looking for 1.5 to 2x revenue that we have the capex that we have invested as our terminal revenue listing and all. So moving as per plan, Viraj, don't see a concern there. Actually, on a capex front, that's one of the good stories over the last 2, 3 years. we have added significant amount of capacity much more than we would have added maybe 8, 10 years before that.

So 2 years, you have done that. Apart from that, we have done a lot of sort of a modernization of our plant, we didn't add to the capacity, but it makes us much more cost effective and future-ready and largely out of our own internal accruals. So that's been a good story. That would -- that should continue in future also.

Viraj Mehta: No. The only reason I'm asking is we are today at 33.5 million square meters. And our utilization is significantly lower than that. So that's why I was asking.

Aditya Gupta : So that is, I think, a temporary market play because there is, as I said, volumes have been a bit weak. But if you heard what I was saying earlier, in terms of A, as the market share gain, the market is much bigger. B, I think long term, it all the way the economy is growing and the way the building and construction sector is being invested into both by the government and the infrastructure sector being invested into. I think the medium-term future is extremely bright for the investor.

Himanshu: Maybe I'll just top up to what Aditya said, Viraj you see capacities are built with the plan, obviously, yes. And there are certain assumptions that we consider, yes. There is a worst case, there is the best case, there is a base case. Base case is largely align to normalized business conditions. Today, where we are, like we already mentioned on the call, things were not rosy in the last 6 months or so for the industry now with whatever was happening on interest rates or nonessentials, etcetera.

And even from the supply side, we see some challenges today. So for us to be able to answer it, it's a little difficult,, because the assumptions are obviously on a base case scenario. Under normalized conditions, I don't think more than 1 or 2 years is required to ramp up any capacity. If things are all okay, supply side, demand side all okay, growing at a particular rate, I think 1.5, 2 years is max.

Moderator: Next question is from the line of Keshav Garg from Counter-Cyclical.

Keshav Garg: Sir, taking up from the previous speaker, sir, our peak margin differential with the market leader used to be around 11 percentage points in FY '17, which reduced drastically by the fourth quarter of last year, wherein, we did 12% operating margin and market leader did 15% operating margin. So the differential was nearly three percentage points.

But since fourth quarter of last year, in the past three quarters that we have seen now this -- again, the margins are diverging. And now the differential has doubled to 6.5% between us and the market leader who made 12% margin, and we made around 6.5% margin. Sir so why is there this divergence over the past three quarters between our margins and the market leaders margin?

Himanshu Jindal: See, quarter four is generally a very big quarter for Orient Bell, specifically we do more projects. This is very clear. And, therefore, there is an operating leverage, which continues to play in quarter four, which is absent in the other quarters. So that is number one.

I think like I said, to Viraj also and I'll try and repeat it. I think one is gross profit margins, blended gross profit margins. This is something that you should, obviously, compare for all players and see where we are,

And the second thing, like, I said, this quarter was a one-off like I explained earlier. There were challenges on the manufacturing side, which were identified and killed early in the quarter. But still, there is an impact coming into this quarter, correct? So you have to consider the nine months difference, and in nine months look at where we are versus our competition. I think that's the fair representation.

Keshav Garg: Right, sir. Sir, also, another matter of concern is that after peaking – this I'm talking about our average selling price realization in the first quarter at INR289; in the second quarter, they reduced to INR288; and in the third quarter to INR284. So firstly, sir, why is this downward trend there, whereas, the input prices are on the upward trend? And secondly, sir, when will this reverse?

Himanshu Jindal: So see ASP is coming up or going down a little, could also be on account of product mixes and whatever additional discounts given at a particular point in time to support volumes. So INR289, becoming INR284 is hardly any change. I don't know if I should even react to it.

Keshav Garg: Right. But, no, on the base of increasing input prices, even a marginal decrease in realizations translates into a bigger hit on the margin. So that is the point of concern.

Himanshu Jindal: Fair enough, fair enough. But I think what you should look at is how much is percentage gains for us in terms of ASP since the start, yes? The cycle on price run increases now, so to say. If I look at ASPs now and I'm trying to compare it with whatever we do with the market leader, our ASPs are more or less the differentials continue to be the way it was even in quarter four last year. So the differentials are not really changing, which means we are more or less in line with the market.

Keshav Garg: Right. Sir, and in the fourth quarter, do you see this trend of declining realizations due to product mix or discounting or a mix of both reversing? Or is this expected to continue considering that demand still remains weak?

Aditya Gupta: So I have covered that earlier. Some of the things in quarter four versus quarter three, which are positive, I said that earlier that quarter four, our blended gas cost, we expect it to be lower than what it was in quarter three. So that's one positive factor. And quarter four, Himanshu already covered that, generally because of more projects we get a better operating leverage in quarter four versus quarter three. Historically, also, you would have seen that our quarter four margins, reported margins are always better than the preceding three quarters. So we expect that to be there.

To the second part of the question, yes, we have to be competitive in the market. You have seen how industry leaders have consistently talked about throughout this financial year that volumes and volumes only is their a single point agenda. And margins nobody is talking about. They just are completely focused on driving volume sales. So that will have a downward pull-fallers also in terms of ASPs, in terms of realization. So we'll be keep taking that call on a daily basis in terms of how to adjust for pricing, what projects and all. So that will go on, but there are some positive factors in terms of gas pricing and operating leverage, which should work in our favor in quarter four.

Keshav Garg: Okay, sir, thank you very much, and best of luck.

Aditya Gupta: Thank you.

Himanshu Jindal: Thank you.

Moderator: Next question is from the line of Pavnish Kumar from Hridya Cars. Pavnish, may I request you to unmute your line from your side and go read the question please.

Moderator: The next question is from the line of Nikhil from SIMPL. Please go ahead.

Nikhil: Hello. Am audible?

Aditya Gupta: Yes, yes. You are.

Nikhil: Good afternoon. A few questions. One is, in the last call, you had talked about the fuel mix being moving to the biofuels and all, which even Kajaria talked about in their call and we also discussed in the early part of the call.

If I have to understand and one of the problem or the key challenge for the industry has been the variability in the natural gas, and which has been impacting the margins in the peak center. With the change in the fuel mix, how does the cost of operation for the industry change? And do you think it can be sustainable? Or would it be more of a temporary factor?

Aditya Gupta: So Nikhil, I'll just explain to you where largely biofuels are being used by OBL, and maybe by the other – outside Morbi. So we use fuel in two areas, one is for preparing the powder, from which the tiles are finally made. And the second is, in the kilns --for baking the tile. So we are using biofuel for the first part, which is for producing powder. We are not able to use biofuels in the kilns. There we are using gas across all our three manufacturing units.

So we started and as Himanshu said, we had started off on biofuels quite some time back. And we continue to do that. So it is not new for us. We have been using biofuels for maybe a year or more now. And so to that extent, the price advantage and the cost advantage and all is already built into our margins. And going ahead, I think even for our competitors, for example, in Morbi, again, they use -- most of them would be using, say, coal, for making powder and then using gas, whether propane or Gujarat gas for the kilns. So that's also not something, which is not very new. It has been going on for quite some time.

Nikhil: Okay, okay. So it doesn't change anything at the industry level in terms of operating cost structure?

Aditya Gupta: No, no. I don't think it does that.

Nikhil: Okay. And secondly, you mentioned -- and this could be a pretty naive question, but you mentioned that in this quarter, we are seeing some amount of respite on the gas prices. But when we look at the average prices and the fall in the gas or the prices, it looks pretty steep. So how and when does that percolate into our P&L, where is that disconnect, I'm just trying to understand?

Himanshu Jindal: Okay. Let me try and give you some more on gas pricing. See, if you recall what happened in the earlier years, post-pandemic. FY 2021, discount that 2021, 2022, we were still at in, how do I say at a more advantageous situation versus those who are buying on spot or those in Morbi.

So for them, the gas costs increased steeply and also passed very fast, very quickly. For us, the increases were since we buy largely from GAIL, the increases were, how do I say, less steep and also gradual. This year, on the contrary, the way things are working out, people who are buying on spot, the spot prices have been very volatile and they have been coming off. People who are buying on spot or in Morbi have got an advantage.

So for them, the drops have been fairly steeper. For those who are still continuing to buy from GAIL, largely from GAIL, so contracted gas is where the increases are still there or prices are coming off slowly and steadily. So the advantage, which we had last year is slowly evaporating this year, correct? Over a period of time, that equilibrium will arrive.

Aditya Gupta: So Nikhil, one thing I'd like to mention is that before gas pricing thing is so volatile and it kind of changes so fast, I think sometimes when I got the wrong end of it, that's fine. But I think the contracts that we have in place in all our three manufacturing units, they enable us to do a much more a predictable pricing for -- in terms of costing and in terms of our go-to-market strategy.

So I see that as a very big benefit that we have that things for us don't change dramatically from month one to month two, as Himanshu explained. The price increases happened in gradual years. So does the price -- the gas price drops are also gradual. So that helps quite a lot in our go-to-market strategy. Now who knows the next month, propane prices might go up, or Gujarat gas might change, and the spot gas prices might change dramatically.

Moderator: Thank you. So the line for the participant dropped. As there are no further questions, I now hand the conference over to the management for closing comments.

Himanshu Jindal: So thank you so much. Thanks for your patience and your interest in OBL. If there are questions -- any further questions, please feel free to come back to either Stellar or ask directly. Thank you so much, and have a good day.

Moderator: Thank you very much. On behalf of Orient Bell Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.