

16th August, 2022

The General Manager,
Corporate Relationship Dept.,
BSE Ltd.
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Rotunda Building,
P. J. Towers, Dalai 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 Q1 FY 2022-23 pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

In reference to our earlier letter dated 2nd August, 2022, pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Transcript of the Earnings Conference Call held on 10th August, 2022 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
Q1 FY 23 Earnings Conference Call”

August 10, 2022



MANAGEMENT: **MR. ABHISHEK SOMANY - MANAGING DIRECTOR,
SOMANY CERAMICS LIMITED
MR. SUNIT KUMAR - AGM FINANCE, SOMANY
CERAMICS LIMITED**

MODERATOR: **MR. NAVIN AGRAWAL - SKP SECURITIES
LIMITED**

Moderator: Good day, ladies and gentlemen, and welcome to the Somany Ceramics Limited Q1 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 managements 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 at SKP Securities Limited. Thank you, and over to you, sir.

Navin Agrawal: Good afternoon, ladies and gentlemen. On behalf of Somany Ceramics Limited, and all of us at 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. Sunit Kumar, AGM Finance. 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 so much. Welcome, ladies and gentlemen, for the earnings call of Q1 FY '23. As you can see, our sales have grown by about 66%, 67% over last year, and in volume terms we've grown at about 43%. The EBITDAs and the other numbers are really not compared -- comparable to last year first quarter, because last quarter was an aberration, so everything looking much higher. But just to take you through, our EBITDA was INR 37 crore and our PAT stood at INR 24 crore at 4.5%, and consolidated was at INR 45 crore EBITDA, which is the right figure to see, because we have a large interest in joint ventures, and the PAT was 3.7%.

It has been a quarter of a lot of pressures in terms of input gas, especially in terms of cash. We have been able to hold our prices, the price increases which we had taken. But at the joint venture level, obviously, the prices went up of gas and the pass-on did not happen there, and they were not able to increase the prices. So therefore, you see the difference between the standalone and consolidated. But the good news is that the gas prices seem to have stabilized in the last one month, and the scenario which we are hearing and seeing is that, mostly the gas prices should be stabilized going forward, at least until we have any new surprises, which is something else in terms of the war. As far as the northern gas price is concerned, we will have a small increase even now in September, because that's on a three-month moving average. But that also with the Brent now down should start evening out and, in fact, going down by the mid of next quarter.

All our plants, which we had expanded capacity in, started. They were obviously delayed. I had mentioned that on the call last year -- last quarter, which was because of the gas non-availability, but now they are all on stream. We -- the last plant started in June. We have done many launches. We've done six launches since June end till two days ago in Delhi, for all the three plants. The Northern plant is fully sold out, the South plant is also coming on stream and it should be at 100% capacity utilization in this quarter. And so will our West plant, which is the Kadi plant for GVT. In all the plants, the plant started with the non-value added product and now we've done launches for the value added product also. So you should see a lot of benefit from the value added products growing in both those plants.

As you can see, the GVT segment moved up from 26% to 30%, last year was 26% in the same quarter has moved up to 30%. And I think this would move up by another 2%, 3% within the next quarter, which is this quarter and the next quarter. The average capacity utilization in quarter one has been approximately 85% in tiles and 88% in sanitaryware, and close to 95% in the faucet segment. The brand spends have been in line with what we generally do, first quarter is slightly lower than the other quarters. The net dealer addition has been approximately 70 dealers, and we otherwise plan to add approximately 300 dealers in this year. There have also been additions on our exclusive showrooms, so that is going well.

The price increases in mid-April and then mid-June were approximately 2.5% to 3%. Our guidance which we had given for the year looks to be still absolutely on site, which is high double-digit growth between -- around the 20% mark. So, we should be able to maintain that. Yes, there is a surprise which is coming up, the Morbi industry, there seems to be some announcement of a week, 10 days of a trucker strike, but

hopefully that doesn't happen. We would know that by the 15th and 16th -- in the next three, four days, 15th and 16th of August. But even if that happens, we should be able to make up at least some of it. It cannot be a very long strike. So, that is also something which we've heard. But otherwise, things are looking absolutely good and steady for this quarter. We've done a lot of work on the value-added segments, we've done a lot of work on new product launches, we've done a lot of work on the channel expansion.

On the balance sheet front, things are looking good. Our debtor levels went down even more. And the stock has gone up a very small bit. But that, again, gets evened out towards the H1. Overall, personnel reaction to the figures, obviously, it has been a challenging quarter, we could have done slightly better. And I think this quarter you will see a decent increase, both in terms of sales and both in terms of margin. So, we are looking good and that is subject to no serious gross increase which doesn't seem to be the situation going forward as we speak. So overall, things looking good.

We had announced the plant for Max -- Somany Max for the slab plant. That is also - - the machinery has been ordered and we should have production by the end of Q1, early Q2 of next year. So that's also absolutely on progress. One more announcement is that the faucet plant we've done some balancing equipment. And that faucet plant will double capacity from the early part of the third quarter, which means by October that would have doubled capacity which would give us some increased margin and also more sales. So the sanitaryware front also things are looking decent and we should be able to give you the growth which is -- which was envisaged and promised at the beginning of the year.

So, overall, things are challenging, but we seem to be in a decent position. Volume is coming through, and we are trying to catch more and more volume geographically, more in the north and more in the south. So we're trying to get more volume what we have missed out in the last year. We're trying to get ourselves to sign up more volume in these areas. Of course, there are not too many plants available, but whatever we are able to get our hands on, we're trying to get that capacity on-stream.

So this is the highlights for Q1. Q2 looks good, it's been a decent start. In July, obviously, slow because of the June pressure. June onwards the market has been slow. But on an overall basis, it's not been as bad as we would have expected to be. So looking good. Other than that, I would look at open the floor to Q&A. Thank you so much.

- Moderator:** The first question is from the line of Vineet Shah from Shah Group. Please go ahead.
- Vineet Shah:** I have a question related to EBITDA margin for Mr. Somany. So, I want to basically ask, as Kajaria, our competitor is having an EBITDA margin of 15% and we have almost close to half of that, 8% as of now. So what are the -- like what are we basically doing to have close the gap between?
- Abhishek Somany:** Between his and ours is more or less in the same lines from quarter-on-quarter. What we are doing to bridge it, obviously, there are a host of things. But the immediate key points are the value added sales and also increasing the GVT percentage of our total portfolio.
- Moderator:** The next question is from the line of Sneha Talreja from Edelweiss Securities. Please go ahead.
- Sneha Talreja:** Hi, good evening, sir. And congratulations on a great set of numbers. Just two questions from my end. Firstly, related to the volumes. Now that Morbi is about to see one month of shutdown, any -- likely for your volumes any difficulty in facing outsourcing material? Or can that be prudent out with respect to inventory levels?
- Abhishek Somany:** So first of all, Morbi shutting, that doesn't shut down our plants, because they are in the organized sector in Morbi. The worry is not the shutdown of Morbi, in fact that's - - that would be a good one for us if Morbi shuts down, that should increase certain demand. But what we're worried is that with Morbi shutting down, I believe, there are also rumors of 10-day, 12-day transport shutdown. If that happens, then it will be -- that will affect us for those number of days. But let's see, I mean, we've had this in the

past also, and transport strike never lasts more than three, four days. So we're hoping for the same.

But as far as the -- our joint ventures are concerned, 100% of them are running, and we have already not consented to this mass shutdown of Morbi. So, to that extent, whether it is ours or other industries who have joint ventures there, and even the largest lab plants and the export plants are running. So, the whole Morbi, I believe, is approximately 90, 100 plant, out of which 60 to 80 plants are going to keep running, provided the lorries are available for dispatch because you can't keep more than a certain amount of stock any which ways.

Sneha Talreja: So no worries with respect to your outsourcing partners as well, is what I meant?

Abhishek Somany: No. So, we have stock there, so that's also not an issue. And anyway, our reliance after these three expansions has come up, most of our alliance is on joint ventures and not so much on outsourcing. And whatever little was there on outsourcing, we have a reasonable amount of stock over there.

Sneha Talreja: Perfect. Just also wanted to get clarity --

Abhishek Somany: Small little issues will come, but those are not to be majorly highlighted. I mean, our joint ventures keep running, we're good to go.

Sneha Talreja: Sure. Got it. Sir, then my second question was related to your working capital days. Just wanted to understand, how is the calculation made with respect to this 45 and 46 days, if at all you could satisfy. Maybe Sunit sir can take it up and just specify this point that, how is the cancellation done on this 45 and 46 days? And what is the reason for the sudden increase that you are seeing in terms of payables, or I think inventory, is what I see.

Sunit Kumar: Yes, Sneha. Hi. So, that's a fairly simple calculation. I think we have explained that working as well on the slide itself, that it's purely the business working capital requirement, which comprises the stock and book debts on the current asset part. And be -- on the current liability side, the trade payable things is being considered. However, the cash surplus, which is not yielding any kind of return to business is not considered as far as current asset is concerned. At the same time, capital creditors are not considered.

Otherwise, it's a fairly simple thing, the current assets and current liabilities, adjusted by these two, three things, the cash balance, the capital creditor, and the short-term borrowings.

Sneha Talreja: Okay, understood. I'll take that calculation separately also with you, sir. Thanks, and all the best.

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

Ritesh Shah: Hi, sir. Thanks for the opportunity. The first question is, what is the rationale for the mass shutdowns in Morbi, what is it that they're trying to achieve?

Abhishek Somany: Okay. I think this, if you see across the world, we have 21 day to 1 month shutdown. If you have China, let's talk of the three, four large economies which produce tiles, I can only compare the tile industry. China generally shuts down for approximately a month during Chinese New Year, which is end of January to end of February. If you look at Italy and Spain, which are very large producers, shut down during the month of August, which is their summer. And they generally do the routine CAPEXs, their routine maintenances, etc., etc. at this time. So, I think Morbi is trying to follow the same, but I think it's been exaggerated.

The situation is exaggerated because of the lack in demand. Although the demand in exports have gone up, but the lack in demand and the extremely high gas prices where they are not able to pass on the prices, especially the slow -- the smaller ones, what they're trying to achieve is to create more demand by taking out one month of production pretty much every year. So they want this to become an annual feature.

And if it does become an annual feature, it'll probably be quite decent for the industry, because everything that gets planned. And maybe some of our plants, which we do ad hoc maintenances, we could also fall in line and do the maintenance at the same time. So, I think if they do succeed two years in a row of this shutdown in August --

And why August? Because generally in Janmashtami there are two times which Morbi generally shuts down for approximately seven to eight days any which ways, one is Janmashtami, and the other one -- because in the Gujarati community Janmashtami is a big one. And the other one is Diwali, which is soon after followed by the Bhai Dooj, and then the Gujarati New Year. So these are the two times of the year they generally shut down. August seems to be a better month because there's -- half the India is under monsoon and there is Janmashtami. So from that point of view they have chosen this month. Good luck to them. If they can, then a lot of the organized industry will also follow suit maybe year three onwards. So that's exactly what they're trying to achieve, create more of a demand by taking one month out of the calendar. So automatically that many percent of the capacity goes out. So create more demand and also hoping that there would be certain price increases when they start operating. This is what they are achieving.

Ritesh Shah:

That's brilliant. Sir, my second question is, just wanted to get some sense on the fuel costing what Gujarat gives if you have a MoU, if it's on spot basis, and how does it compare versus propane after including on the taxes. That's the first question.

And the second question is, how is our costing for different regions basically for the quarter.

Abhishek Somany:

Yes. So yes, we have contracts with Gujarat Gas, those contracts are 3 month contracts, unlike the contract which we have in our northern plant, which is a 20 years. So there are three month contracts. And the pricing they give us is a blended pricing, we don't have exact BI as to how they price for gas, but they price it between spot gas, RLNG which they're buying from Qatar and various other areas, and also some amount of APM. So, a blended cost to give you an example, currently in Gujarat is approximately INR 65 a standard cubic meter for RLNG which they are providing to us. Compared to last same quarter it used to be INR 36. Let's not even get into what it has gone up from, so from INR 36 to INR 65 it's obviously gone up slowly and steadily, even on quarter-on-quarter it has gone up by INR 3 to INR 4.

As far as propane is concerned, currently propane is approximately INR 7 to INR 8 standard cubic meter cheaper. And a lot of the plants are converting to propane with large CAPEX. The smaller guys may not be able to afford it. But for example, for -- some of our plants are moving to propane. It needs a yard, it needs the permissions from the authorities, and it needs a CAPEX of approximately INR 1 crore plus. So, three of our plants are moving in this direction, two have already done it in the last 10 days. One is on route by month end, by month end it should be done. So from that point of view, we are also moving whatever we can into propane.

On the other front, in the northern area our gas price used to be the same INR 36 same quarter last year. Today it's approximately INR 58 for the quarter. And if we speak as of today, it's approximately INR 62 -- INR 64 a standard cubic meter. So as we speak in August, it is INR 64, same as Morbi. In the South it used to be INR 34 same quarter last year. Last quarter ended, what we are discussing the results was INR 71, currently it's at INR 90. So very, very significant sharp jumps in all of the gas prices as we speak.

Ritesh Shah:

Sir, just last question, I'll just try to squeeze in. What percentage of capacity in Morbi has already moved to propane? Like, is it significant to adjust the cost for somebody who doesn't move to propane, will it be at a disadvantage?

Abhishek Somany:

So look, approximately 130, 140 plants have moved to propane, and what I believe is that 150 plants would finally move to propane. So it's not going to be a very, very large amount considering there are 800, 900 players there. Some don't have space, some don't have the ability, some don't have the permissions etc. And I do believe that with every passing day if gas prices start numbing in the next three, four months, it will make less and less sense. So, I think whoever had to move, other than the 20, 30 more players, most of them have moved. And for them, it will be an advantage. So for

example, our plants, which have moved to propane, we will be producing tiles at INR 60-something level, INR 58 to INR 60 standard cubic meter level. Whereas the other people are producing at INR 65 to INR 67 a standard cubic meter level.

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

Keshav Lahoti: Sir, what percent of the Morbi will be shut down for this one month?

Abhishek Somany: What we hear is that the total -- approximately 50 to 60 plants will keep running. And I don't have BI as to how many have already shutdown and how many are going to shut down as a result of this mass shutdown. But there are about 800 something players in Morbi, out of which 60 to 70 -- maybe 60 would keep running, provided the transport strike is not a very stringent.

So just do a very quick math. We have about eight, nine plants, industry leader has another eight, nine plants. And other organized players put together have another, let's say, 15 plants. So, that's approximately 30, 35 of us. And then there are approximately three, four very large players there, Morbi standard large players, that's another 40. And then another 10 plants which are making slabs, slabs mostly get exported. And another 10 plants which are 100% export-oriented, not a single tile goes into India. So all of these 60 plants have no reason to shut down. And they have not even put their name as a consent on this mass shutdown, which is very well known to Morbi. But this transport strike is a little -- is a new one. We are hoping it doesn't happen, and even if it does happen, it's a two, three day strike uptill Janmashtami, which anyway is a muted period. Let's say everything was going okay, normal, between 15 August and Janmashtami anyway is going to be muted period. So, if that's the case, I think those 60, 70 plants will have no issues.

Keshav Lahoti: Okay. And how has been gas prices s region-wise in North, West and South in Q1 and current prices?

Abhishek Somany: I didn't understand. I'm sorry. Can you repeat, please?

Keshav Lahoti: What is the gas prices for Q1 in North, West and South? And also the current price?

Abhishek Somany: I just mentioned that, the gas price in North, Q1 was INR 58, Morbi was INR 65, South is INR 71. The North has gone up to INR 64, Morbi has gone up by INR 2 to INR 67, and South has gone up from INR 71 to INR 90.

Keshav Lahoti: Okay. Yes. I wanted the South numbers. That's it from my side.

Abhishek Somany: But mind you, in the South also we are trying to acquire gas at slightly cheaper rates from third parties. So, we've already been able to succeed for a small amount, we should be able to secure some larger amounts. Not obviously substantially cheaper, but cheaper than the current rates. So, we are trying our best to see how we can get that. And this is, again, for the next couple of months, hopefully after that it should start getting muted.

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

Aasim Bharde: Yes. Hi, good evening to the two of you. I just wanted to check, if you'd like to talk about any margin expectations for the rest of the year, assuming gas prices stay where they are and your value-added mix moving up.

Abhishek Somany: Yes, good evening. So, as I mentioned in my opening comments, with these three plants going on stream and value addition coming up, if gas prices remain at the current levels, we should see certain margin expansion. I'm unable to give you a figure right now because it is extremely volatile, but at steady state it should be a small margin expansion for sure because the value added sales would have kicked in.

- Aasim Bharde:** Okay. But still, I mean, that's what I wanted to check, whether is there any number in mind for the rest of the year assuming things are stable? But okay, sure.
- Abhishek Somany:** I wouldn't want to give a number, it may be too early. Maybe next quarter if things stabilize, we should be able to give some guidance. And the reason why I say that is because, generally gas price moves up again in the winter months. So, early days to say, it's so volatile over there that it'll be really futile to give you a number and then people forget everything else and just put that number on the -- but it's at steady state, I do believe there will be a margin expansion. So let's talk of this quarter, this quarter there should be a margin expansion, because I don't see any surprises on gas prices in this quarter. Who knows what will happen next quarter.
- Aasim Bharde:** Fair enough, sir. Fair enough. On GVT, you said 30% of revenue in Q1 is GVT, and that can go up to 33% in Q2. Where can it settle off by Q4 end? And maybe FY '24 where -- are there any further levers to keep it -- sorry.
- Abhishek Somany:** Yes. No, absolutely, I understand your point. Sorry to cut you off. But I think, closer to maybe 33% to 34% by this year end, maybe a little more. But next year we are putting up the slab plant, so that will push up by another 2%. So, I think the 35% plus figure would be there by middle next year maybe, if that would be the minimum, it would be probably more.
- Aasim Bharde:** Got it, got it. And is this the value added mix as well? Or is there something more to add to it?
- Abhishek Somany:** No, value-added mix, that journey keeps going. I mean, it's a work-in-progress, so that value-added mix will keep coming up. And that new slab plant is 100% value-add anyway. And for that matter, even the -- our Kadi plant is 50%, 55%, maybe more, 60% is value-add. And in the south also the GVT expansion which has happened, approximately 50% to 60% is value-add. So, obviously, when you start a plant you start the plant with your basic material, why would you make a value-added material and there are issues in the first 15, 20 days of any plant starting, any greenfield plant starting. So value added mix have started coming up. You'll see that figure, when you analyze our Q2 you'll see half of Q2 would be giving me a good flavor of that figure, and the full of Q3 and Q4 will give me a good flavor of that value-added mix. And by that time, we should be ready with the slab plant, like I said end of first quarter beginning second quarter we will have the slab plant in Morbi which will also further augment our value-added mix.
- Sunit Kumar:** I think just one clarification. Whatever this percentage we are talking about, this percentage to total title revenues, so don't replicate this to total revenue, because that comprises 10% of non-tile as well.
- Aasim Bharde:** Understood. So I was actually talking about tiles power only. [Foreign Speech] Thanks a lot, sir. And congratulations on a good performance in Q1.
- Moderator:** The next question is from the line of Sneha Talreja from Edelweiss Securities. Please go ahead.
- Sneha Talreja:** Sir, just wanted to understand two things, one is the decline in other expenses on a Q-o-Q basis. I think on the opening amongst you also mentioned that ad spend has seen some decline, which is usual in Q1. Could you give some other reasons also along with ad spend what has been the decline in Q1?
- Sunit Kumar:** Yes, Sneha. Hi. So, that was a fairly covered in opening remarks as well. So that's a obvious certain expenditure which comes towards the end of the year as we progress. And that's largely the A&P part of it. Though we have been maintaining and it's roughly 2%, 2.5% type of range, and that we have been consistently doing for this quarter as well. But if you compare with the Q4, I think the difference of roughly INR 4 crore, INR 5 crore at a standalone level is that much only.
- Sneha Talreja:** Okay. So it's largely due to ad spend?
- Sunit Kumar:** Yes.

- Sneha Talreja:** Also, just wanted to understand your depreciation part of it. Despite the new plant coming up, we have seen decline in your depreciation. Any reasons for that, on a Q-o-Q basis?
- Sunit Kumar:** So, actually Q-on-Q basis is aberration, Q4 was aberration, to be honest. because there were certain machinery and equipments which were flared up because of modernization and all these things, that's why Q4 number is normalized one. The number what you are looking for the Q1 and even the previous quarters, that's the normal one.
- Sneha Talreja:** Sir, this quarter has a meaningful decline number, like Q4 should be a normalized average run rate that we should look at?
- Sunit Kumar:** No, not exactly. Q4 is not the normalized one. This quarter, even the earlier quarters, Q2, Q3 was the normalized one. Q4 was not normalized because it was flared by certain amount because of the certain equipments getting written-off for replacement under the modernization scheme of Northern plant.
- Moderator:** The next the next question is from the line of Pranav Mehta from ICRA Securities. Please go ahead.
- Pranav Mehta:** Sir, just wanted to understand your thought process on selling out of one of the JVs in Morbi, that is Amora Ceramics. So, what is the strategy behind this? And just a related question on this is that, is ceramics as a product category being expected to gradually lose out to vitrified tiles, and that is the reason why some of the organized players are more now focusing on outsourcing of ceramic instead of, let's say, own manufacturing and JVs? That was my first question.
- Abhishek Somany:** Yes, thanks for the question. I was hoping that question comes up, even I forgot to mentioned it in my opening remarks. But, so we had two JVs, we had Amora Tiles and Amora Ceramics. They were right next to each other. The reason for putting Amora Ceramics as a separate company at that time were certain benefits which we were getting for putting up a greenfield manufacturing. So, one was producing 4 lakh square meters of tiles per month, and one was producing 2.5 lakh square meters of tiles per month. So the total capacity between Amora Tiles and Amora Ceramics was 6.5 lakh square meters of tiles per month.
- We never got down to use 100%, we were only -- when we put it we were using more than 4 lakhs, but we never could use 6.5 lakh square meters, we could only use 500 square meters of ceramic tiles from there. After which we expanded the Kassar capacity and we are also trying to tie up certain capacity in South, which we are currently not overly successful with in the wall tile segment. But the reason for this divestment is that, what we are doing is we have added capacity. We've done balancing equipment to the tune of INR 10 crore to INR 12 crore in Amora Tiles, which is the original joint venture from eight years ago. We have augmented capacity in that -- or rather, we would have augmented capacity by November that will go on stream soon after Diwali, from 4 lakh square meters to 5.5 lakh square meters. So that is what we've been selling.
- So what we were trying to do is get a 100% capacity utilization from that one plant, which is 5.5 lakh square meters, which we are confident of selling and we are already selling, and divest Amora Ceramics which is a 2.5 lakh square meters plant. And our partner was able to sell that in exports, and various other areas. So they have gladly agreed to take that back into their -- 100% into their fold. And simultaneously add capacity in the Amora Tiles, which again is the same partner. So they have also put in their money in their own share to augment capacity for 5.5 lakh square meters. So as far as Somany is concerned, we are not going to have a single square meter which will go down. And even in Amora Ceramics which we're divesting, first right-of-refusal for any incremental capacity will be ours. So this is the reason. And thank you for asking the question.

And your second question is, is ceramic going down? Ceramic is not going down as fast as PVT is going down, polished vitrified tile is going down further. There will be a reasonable balance which is what we've seen in Italy, Spain, China everywhere, between ceramics and GVT. Obviously, GVT came from a very low base, so GVT we see it as a very fast moving -- fast increasing segment. So from that point of view, GVT also will start tapering off because it was on a small base, now that the base has become larger. So I think there will be a healthy mix between GVT and ceramics, more in favor of GVT, because ceramics anyway was limited to kitchens, bathrooms, etc. even earlier. There it is still the preferred product. So, PVT has gone down.

Why more people are outsourcing? I think that is something, which I had mentioned earlier. In the South, some of the organized players have gone and tied up capacity for ceramics. I think we were just a little too late to catch that boat. But never say never. So, we are also trying to get capacity. For example, we have been able to tie-up more capacity for ceramics and GBT in the -- not very recently in end of July, and we are also tying up some capacity within the next one month in South for ceramics. So it's not that ceramics is going down or anything. And the divestment is very strategic, it's a win-win for all. My plant, out of one plant I need more than 4 lakh, it will be able to give me 5.5 lakh. And at 100% capacity utilization, you may appreciate that the gas efficiency has become also that much greater, so it's a win-win for all of us. I hope I have clarified the questions.

Pranav Mehta:

And sir, your guidance for bathware segment growth, and now that the new players are also coming into the bathware segment, and most of them are now targeting for outsourcing of capacities, I believe, it would be mostly from Morbi and Thangadh areas only. Do you think there is a possibility that there could be a shortage of capacity in bathware segment, particular in sanitaryware, because Indian exports are also going up quite well for last year two, three years. So your thoughts on the same.

Abhishek Somany:

So we still have capacity for one year, and we also have outsourced capacity. So I don't think capacity is going to be a constraint in bathware immediately. As far as growth is concerned, we had said between 35% and 40% growth. And I think we're absolutely on that figure. We should be able to achieve that. And as far as our faucet is concerned, I mentioned in my opening remarks that we've done some tinkering, balancing equipment, we should double our production.

Moderator:

The next question is from the line of Vineet Shah from Shah Group. Please go ahead. Mr Shah, I have unmuted your line, kindly proceed with your question.

Vineet Shah:

I have a question on similar lines on bathware segment. So, with these big players, Asian Paints, and Jaguar, all these players, what is our right-to-win in this segment? And yes, this is my question. Other question you've already answered on the bathware segment.

Abhishek Somany:

No, this has been asked in the past also, thank you for your question. Our right-to-win, I think the confidence is that everybody has their own set of dealers. We also have our relation for the last 50 years with our dealers. If you see, currently, we have not even scratched the surface. We have approximately 200 -- 2,900 active dealers and about 3,300 dealers, which then sell to approximately 10,000 sub-dealers. If you take even the 2,800 and something, so ballpark 2,900 figure, not more than 4 to -- 350 million to 400 dealers are still keeping our sanitaryware. So long way to go on that one.

And specifically to provide our product to all the shelves is where, we believe, that we would be able to become even more successful. And I think our journey has been quite successful till now. Then if we see the demand from the market, our products are liked in quality, our products are light in the variety. The variety only keeps increasing as we grow. Pricing is also, I won't say cheap, but it's competitive compared to industry leaders in that segment, which is the Roca, Kohler, Hindware, Cera, etc. So from that point of view, I think we are okay. We still have a long way to go. Unlike the tiles segment where 80% of our product is retail and the 20% is between government projects and private builders.

Over here, still approximately 50%, 60% of our products -- 50% of our products are in projects. So we are not still as strong in retail, but that obviously will be the fact

that is still not recognized as a sanitaryware brand. But with every passing day, we are overcoming that fact. And there are also -- just to preempt another question. We are also planning some mega launches of new products in the coming quarter for the sanitaryware to build more awareness and build more awareness for the -- our product line. So that's where it is.

And as far as Jaguar is concerned, I think they've been in the sanitaryware bath-fitting segment for very, very long. Astral is a new player and there are one or two more players which are coming up. Asian Paints, again, is somebody who had entered this space approximately four years ago, or five years ago with the faucet plant, and they have now started also sanitaryware in a very small humble way. So I guess, the other way to look at it is, there are very few players for the last 30, 40 years in the Indian bathware segment, and now suddenly it's heating up, this area is also heating up.

Vineet Shah: Okay. And I have one follow-up question regarding the dealerships. So usually I've seen like faucetwares are usually sold in hardware stores, and tiles and these things are sold separately in different dealerships, right? So how are we -- are we targeting any new sellers or anything like that?

Abhishek Somany: No, no. Let me stop you here only, that's not true at all. If you go and walk into any tile store, bath-fittings, sanitaryware and tiles go in hand and glove. It's the geezers which have two segments, they have our segment and they have the hardware segment. But beg to defer there, sir. The faucet segment is sold from the tile dealership only. So, what you may refer to is the accessory, so certain -- if you've used -- I mean, everybody uses faucets. So if you see under your basin, there are those two nobbs for hot and cold which keep getting spoiled. Those are little things which the plumber may buy in a hardware store also, they're called a bibcock. But otherwise, those little small items are sold from a hardware. But the basic your shower cubicle, the lever over there and your main faucets and your health process, those are 99% sold out of tile showrooms.

Vineet Shah: Okay. And considering the fact, as you mentioned 50% to 60% is in projects, what is the return on capital employed we are looking at in this segment, in the longer horizon, not in the short term?

Abhishek Somany: I couldn't understand. I'm sorry, if you could repeat.

Vineet Shah: So, what is the return on capital employed that we are seeking in this bathware segment in longer term?

Sunit Kumar: So, return on capital employed bathware segment is definitely on the higher side, considering it's margin accretive business as compared to tiles on a blended level. But since it's a part of the same bigger company, so difficult to dissect precisely the capital employed percentage for it. But in general, for us, the asset turn is also higher and margin is also on a higher side. So, and these two are the only function for a return on capital employed. So, directionally we can say it's higher as compared to tile.

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

Ritesh Shah: Sir, my question is on, one is, sourcing of fuel in South. Can you provide some more color? The reason I ask this is, if one looks at the headline numbers for costing in South for the fuel, we are on a higher side versus the largest player. And in fact, we are at advantage in the other regions. So just trying to understand the differential, if it's possible.

Abhishek Somany: No, that's not true. Our prices is exactly the same as other players in the south, unless they are running on coal. So all the organized sectors, industry leader, ourselves, we are at exactly the same price, there is no difference.

Ritesh Shah: Okay, I'll connect to you offline for this, so that's one. And sir, second, some quantification. if you can give on the trend in exports out of Morbi, and if Morbi is say shut for a month, what happens to the export trend? And secondly, is there any disruption in the global seaborne trade because of Italy and Spain probably facing issues on fuel availability or even viability issues over there?

Abhishek Somany:

So export, if you see America which used to be zero, has become the largest importer from India. So the single largest export which is now happening in terms of value, I'm not sure of the volume, because I generally get only value figures from customs, is now to the US. Earlier it used to be to the GCC and Saudi Arabia specifically. So now Saudi has become number two and US has conceded that space. So, the exports is only going up. And in this 15-day outage, I believe, there is certain amount of stock at least with the export-oriented players, which will keep going. But otherwise, I really don't know how they're going to manage. Other than the 100% export-oriented units, if the units close down, how they are going to manage the export commitments. Obviously they must have thought of something from Morbi.

There would be a small disruption any which ways. But overall, the export for India, as mentioned by -- in various forums by all industries -- all industry leaders from our industry, we are looking at exports of between INR 17,000 crore to INR 19,000 crore. Last year was approximately INR 12.5000 crore, which if you annualize, considering we had one month of the Delta shut down, it was about INR 13.5000 crore. Which this year should be anywhere close to INR 17,000 crore to INR 19,000 crore. So exports is something which is looking good. And this is, mind you, at a situation where freight rates are still high. Obviously, freight rates have started numbing and we do believe in the next 12 months it will be even better. Exports will be a huge, huge plus point for the Indian tile industry.

Ritesh Shah:

Sure. Sir, last question if I may squeeze in. Sir, how should one look at the channel inventory right now given the Morbi situation? And secondly, any color on the pricing if you have taken before the start of this quarter?

Abhishek Somany:

We did take some price increase in April and then in June, approximately 2.5%. But whenever we've taken a price increase, it's been eaten away by an immediate subsequent gas price increase. As far as Morbi is concerned, they are hoping that there would be a small price increase after this shutdown.

Ritesh Shah:

Right. And channel inventory?

Abhishek Somany:

Channel inventory, nobody in the dealership is overstocking materials, even now they're not overstocking because they've seen Morbi only reduce prices in an increased input price scenario. Not really reduced price but giving better discount to remove some old inventory, etc. So the channel inventory pretty much remains the same. Maybe it would have gone up a little bit in the last one week or, as we speak, going up, because everybody knows there's going to be a 15 day shortage from Morbi, so they must be stocking up. But mind you, a lot of those channels don't really deal with us. So, the Morbi channel industry may have gone up a little bit, slight bit in the last one week, or is going up in this week.

Moderator:

Thank you very much. As there are no further questions, I would now like to hand the conference over to Mr. Somany for the closing remarks.

Abhishek Somany:

Thank you so much, ladies and gentlemen, for joining us for the earnings call of Q1. We hope to welcome you for the earnings call for Q2. And hope for the best quarter. Thank you so much.

Moderator:

Thank you. On behalf of SKP Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.