



Pokarna Limited

Date: 23rd May, 2024

BSE Limited, Phiroze Jeebhoy Towers, Dalal Street, Fort Mumbai - 400 001 <u>Scrip Code: 532486</u>	National Stock Exchange of India Ltd., Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E) Mumbai- 400 051 <u>Symbol: POKARNA</u>
---	---

Dear Sir/Madam,

Earnings Call Transcripts

Pursuant to Regulation 46(2)(oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, the transcript of the audio call recording of the Company's Analyst Call held on 21st May, 2024, on the Audited Financial Results (Standalone and Consolidated) of the Company for the Fourth quarter and Financial year ended 31st March, 2024, is attached herewith.

The transcript of recording can also be accessed on the Company's website using the following link:

<https://www.pokarna.com/wp-content/uploads/2024/05/Investor-Call-CDC2720240517153227.mp3>

This is for your information and records.

Thanking You,

Yours Faithfully,
For and on behalf of Pokarna Limited

Gautam Chand Jain
Chairman and Managing Director

CIN: L14102TG1991PLC013299

Registered and Corporate Office: Surya Towers, 105, Sardar Patel Road, Secunderabad 500 003, Telangana, India.

Phone: +91 40 6631 0111, **Email:** contact@pokarna.com, **Web:** www.pokarna.com



Pokarna Limited

Q4 FY24 Earnings Conference Call

May 21, 2024

Moderator

Ladies and gentlemen, good day, and welcome to Pokarna Limited's Q4 FY '24 Earnings Conference Call. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India.

Gavin Desa

Thank you, Michelle. Good day, everyone, and a warm welcome to Pokarna Limited's Q4 and FY '24 earnings conference call. On the call today, we have Mr. Paras Jain, the Chief Executive Officer at Pokarna Engineered Stone and Mr. Viswanatha Reddy, CFO. Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties.

I'd also like to state that this is a 45 -- the duration of this call will be 45 minutes and we will conclude at 10:45 a.m.

I now invite Mr. Paras Jain to open proceedings of this call and share perspectives of business and outlook. Over to you, Paras.

Paras Jain:

Thank you Gavin. Greetings, and thank you for joining us today. While you have the financial numbers for the quarter at your disposal, I'd like to share some insights into the quartz surfaces industry to provide context for our financial and operational achievements.

Despite ongoing economic headwinds in the U.S. impacting the quartz industry, our results for the quarter and the full year reflect the relatively positive effects of the actions we are taking to enhance our performance. This quarter, we've seen stable margins in our quartz business, largely in line with Q3. However, these were somewhat offset by a marketing expense of Rs. 7 crore and a markdown of certain finished goods inventory by Rs. 7 crore in Q4.

Let me provide an update on the ongoing capital expenditures in our quartz business. We are investing in two technologies, KREOS and CHROMIA, both from Breton of Italy.

Starting in Q2 of FY25, we will commercialize the KREOS line, a new-generation mixture extrusion



and distribution system designed to produce full-body, ultra-thin, and uniquely innovative aesthetic slabs. Following this, in Q4 of FY25, we will commercialize the CHROMIA line, which is designed for decorating quartz slabs with high-definition digital printing. This technology allows for printing precise, intricate patterns and vibrant colors, enhancing the aesthetic appeal and customizability of slabs.

Turning to our granite business, while the environment remains challenging, we are moving forward with a renewed focus on the quarrying business to navigate these conditions. Our efforts are directed towards getting this division back on the profitability track in FY25. Additionally, the Board has approved the decision to transfer, sell, lease, exchange, hive off, or otherwise dispose of the Apparel Business on a going concern basis. This marks our exit from the Apparel Business, allowing us to focus entirely on our Stone businesses.

We are hearing from our U.S. quartz sales channels about a pickup in consumer optimism and a rebound in the housing market in certain areas. The forecast for U.S. new home starts and existing home sales predicts a slight increase in 2024, with greater improvement in the second half of the year.

We are receiving enthusiastic responses for our quartz from customers in Canada, France, Mexico, and Russia.

Looking ahead, we are optimistic about FY25. Our strategic initiatives and investments are positioning us for a better year, with improvements already being seen on the demand front. Our broad and innovative quartz offerings, combined with our commitment to quality and service, will continue to drive our success with both new and existing customers. As we navigate current market dynamics, our strategy remains firmly focused on enhancing innovation, developing our brand, and expanding our geographical reach.

Thank you once again for joining the call. I'm now open to answer any questions you might have.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of VK Karthi keyan from Suyash Advisors.

VK Karthi keyan: Yes, one question on the two technologies that you're launching. What is the current market demand for these products? As in, are these existing product categories or completely new product categories, how would business development happen? Some color on that would be interesting.

Paras Jain: That's the only question you have, Karthik?

VK Karthi keyan: And what's the capex on these two machines?

Paras Jain: So now coming to this Kreos and Chromia technology, these two technologies we are bringing from Breton of Italy. So Kreos is a new-generation mixture extrusion and distribution system where the products are actually made -- today, currently, we make a 12-millimeter product, 20- and a 30-



millimeter product. Kreos would allow us to make a 7-millimeter product also, which has certain different applications in certain markets. Apart from that, it would also allow us to make products with a unique aesthetic.

So currently, this technology from Breton is available with two to three players across different parts of the world. And Chinese have been trying to copy this technology, but we have not seen a good copy as of now in the market from the Chinese side of it. But from Breton, we have two manufacturing companies one in Korea, another in Italy who already have introduced this product last year. So in that way this technology is relatively new compared to the other quartz technology..

Secondly, coming to the printed Chromia. Chromia is basically, if you have seen the ceramic slab or the porcelain slabs are actually printed. There is a printing technology. So hitherto, in quartz, there was no printing technology. So now Breton has introduced a technology called Chromia, which will allow us to decorate the slab with certain printing apart from bringing whatever aesthetic we bring from our existing production line.

So this technology typically has been growing in the last 2 years to 3 years. There are some Chinese players in it, there are some Italian players in it, but we have decided to go with Chromia because we believe that this represents that technology currently available in the market. Coming to capex. So if you recall in, I think, our last or call before that, we've announced that we are doing about EUR 10 million capex which is across these two products, these two equipments.

VK Karthi keyan: And if I may add one quick question. Would this help you to improve realization at least by \$1 on average or more?

Paras Jain: The current focus is on improving the product aesthetic and we believe that as we improve the product aesthetic, the realization should also get better. So I don't have the number. But definitely, the focus for investing in this technology is to be able to offer innovative products, which would help us to increase our net realization.

Moderator: Thank you. We'll take the next question from the line of Manav Singh from Auralis Capital.

Manav Singh: My first question is the exclusivity contract that we had with Breton, it's not there anymore.

Now many other companies make the quartz slabs. What is the competitive advantage that we would be having over others? Can you please explain a little bit on that?

Paras Jain: See the exclusivity with Breton is, I think, was finished, I think, about 5 years, 7 years back. So I don't think that has hindered our progress or our positioning in the market, rather if you see our performance has improved over last 5 years period of time. Because this industry no longer is dependent on what the technology supplier provides. It is your R&D which actually positions you differently from the others in the market. It is your innovation, which keeps you ahead of the competition.



So our strength is our research and development where we are able to bring in aesthetic and innovatively driven product ahead of the market, and also our understanding of the fashion. Because this industry, unlike a stone industry, natural stone industry, which is predominantly driven by what the nature has provided you, is largely driven by the fashion coming. So I think our taste for fashion and our innovation and R&D is keeping us ahead of the market, and we believe that we'll continue to be differentiated on those 2 fronts as we move forward.

Moderator: Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors Private Limited.

Dixit Doshi: A couple of questions. Firstly, on the margin. So obviously, we had some one-off this quarter and also quarterly comparison is slightly not proper. So on a yearly basis, we have done 32% EBITDA margin. So do you feel more or less going forward will be in this line only? And my second question is regarding these two new technologies. So one, we were also trying -- or doing some R&D for alternative raw materials.

So will these two technology is related to that also or that will be a completely different product? And in one of the earlier calls, you have mentioned that these two new technologies will give us altogether a new segment. Right now it is mainly a kitchen counter top. If you can elaborate on that also.

Paras Jain: Thank you, Dixit. Coming to your first question on EBITDA margins. So we believe that 30% to 35% guidance, what we have traditionally provided, is a good number to look at for FY '25 as well. And coming to your second question on the alternative raw material. The alternative raw materials typically are to substitute certain raw materials in the formulation so that we have lower crystalline silica products.

So if we were to produce a lower crystalline silica slabs, we could still use the Kreos technology, we could still use the Chromia technology. So formulation is relatively different and technology, Kreos and Chromia, works with both with our existing formulation and also will work with the new formulation as and when that gets ready.

Now coming to your third question on the new segment. So what I meant there was and if you recall a little while ago, I said, there is a possibility of Kreos helping us make a 7-millimeter product. So 7-millimeter product typically is used for as a furniture top in Europe and certain other areas and also in applications, where they want lighter materials or thinner material. So currently, because the density is quite high in 12- or 20-millimeter or a 30-millimeter product, the application is limited.

So we are trying to explore the possibility of pushing this product in a segment where we can open up the market for shower wall surrounds, the furniture tops and all using a 7-millimeter or thinner slabs in that segment. That was my context when I said new segment.

Moderator: Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital Advisors LLP.



V.P. Rajesh: Couple of questions, with respect to these two new technologies, do we have any geographic descriptions or given what you said that there are two other players, everyone can sell in any of the markets across the world. So if you can just give some color on that side.

Paras Jain: Yes. So basically, there is no restriction from Breton to any of the existing users of this technology or on us as to where this product has to be sold. Wherever the market is there, wherever we have customers, all of us are allowed to sell wherever there is a demand and supply.

V.P. Rajesh: And are these two players equally strong in the US market which is very core to us?

Paras Jain: They have been in the marketplace much before we came into this marketplace with our old technologies as well. So they have a position in all these markets. But I think our trends are relatively different is what is our assessment, and we should be able to position our products well in this market space in spite of a couple others having the position or their presence there in those markets.

V.P. Rajesh: Got it. And then if you can just talk a little bit about the international forays that we started last year? We were expanding in Russia, then Canada and some other countries. So what's the update on that in terms of the business traction you're seeing there?

Paras Jain: So we started in Russia and the market there is doing good in terms of the product acceptance and the repeat order. Currently, the only challenge what they are facing is the lead times because not every shipping line goes to Russia. So there are very relatively smaller services, which are available to get the product delivered there. In spite of that challenge, I think the product presentation, the reach and the client or the distributor who we have currently is doing a good job, and the response what we have received from him and his client is exceedingly well. And we believe that as we ease out the situation on the shipping and as we move forward, I think the business is definitely poised to grow.

And coming to Canada. Canada market is doing good. Our distributor is able to expand his reach beyond the geography, what he was currently working. So he is looking to expand his operating geographical reach with Quantra as well. The product is well marketed, displayed, and is getting a good traction out there as well.

Mexico. Our distributor is doing good in spite of Mexico being a very challenging market because of the presence of low-cost imports. But since we are positioned on a different side of the market, we are looking at positioning as a niche and a luxury brand than at a bottom of the pyramid out there. So there also the traction is good.

France, we are working with a client, who is one of the largest in his segment there. And they're also doing a good traction out there in terms of repeat orders and the product acceptance, expansion of range and everything. So I think we are pretty much happy with the geographies which we entered last year, with the progress what we have made so far because it usually takes a longer time for the



product to get accepted and the repeat orders to start flowing.

But with whatever constraints we were operating in certain markets, I think the response, which we got at the rate, at which it came is really increasing and again, we are looking at exploring further more opportunities in the different geographies. Let's see how it pans out, but the focus on expanding beyond U.S. continues and also the expansion within US. is also happening. Like we are looking at adding some more distributors of our brand in certain geographies, apart from adding some private label clients.

V.P. Rajesh: Got it. And just one last thing. What was our percentage of revenue last year from these new markets?

Paras Jain: So right now the percentage from the new market is in a single digit, but I think that is very promising compared to what we were before we got into this market. And as the market, our penetration in those markets increases, I think, it has a potential to consolidate, be a double-digit number there.

Moderator: Thank you. The next question is from the line of Vaibhav Gupta from Bowhead Investment Advisors.

Vaibhav Gupta: Sir, in the opening remarks, you mentioned there is an incremental marketing spend of INR7 crore in Q4. So is it linked to the new product launches we did at KBIS?

Paras Jain: Yes. So basically, KBIS is a very large show where we participate and all these shows in America are relatively very expensive to participate. Considering the booth size what we have and the relative handling expenditure and all the other marketing expenditure, what we -- so all these were related to the KBIS, which happened in February '24.

Vaibhav Gupta: So sir, can we assume whenever we do a product launch, which generally happens around January, February in KBIS, the marketing expense or other expenses would go up slightly?

Paras Jain: So usually, on a yearly basis, currently, we have about a couple of million dollars, which we spend across 3 to 4 exhibitions. So KBIS has got the largest chunk actually of all these things.

Moderator: The next question is from the line of Vivek Tulshyan from New Mark Advisors.

Vivek Tulshyan: My first question was on the tax rate. Our tax rate currently seems to be at about 35%. So do you think this will continue at this rate? Or we will move to the 25% rate in the coming 1 or 2 years? The next question is on capacity utilization. What is the current capacity utilization? And this EUR 10 million capex that we are doing, what will be the asset turn for this once both the plants are ready?

Paras Jain: I think currently, we are at 35% tax rate. And then '24, '25, we think we'll move to 25% tax regime there. On current capacity utilization in the quarter in progress, we are very close to the -- our optimal capacity utilization. I didn't get your last question because I think there were some disturbance. Can you just repeat on the capex, something you asked?

Vivek Tulshyan: Yes. I was asking what will the asset turn for that EUR 10 million capex that we are doing on the two



new products?

Paras Jain:

Historically, if you look at our asset turn has been always around 1 to 1.25. So I don't think it's going to be more than that and that's going to start once we have a complete stabilization of the product, of the technology and then R&D to be completed where the products are to be established. But it could be relatively lower also because -- or could be higher also. It depends upon how finally we bring out the products from this. So I think we'll have more clarity after 2 quarters once the R&D is completed and the product comes out.

Because when you buy these technologies, typically, you have very limited visibility from the OEM or from the supplier as to what designs can be made. It is your own R&D, where you go beyond and try to achieve something more than that. So I think two quarters will have more clarity, and then I can give you a right number, which is more precise.

Vivek Tulshyan:

Understood. Sir, just a follow-up on the capacity utilization, you said we are now operating at optimal capacity utilization on our quartz facility. So is there a plan to set up a new line in the coming year or do you think that -- when is that decision going to be taken?

Paras Jain:

I think that decision, the Board will take at a right time, so I don't have an answer for that at this time. But I think definitely Board will consider whatever is right depending upon what they see about this business in the near future.

Moderator:

Thank you. We'll take the next question from the line of Shreyans Jain from Svan Investment Managers.

Shreyans Jain:

My first question is, could you give us some sense on how a product mix currently in FY '24, how is it between your general and high-margin products?

Paras Jain:

So, if you compare with our last year number this is '23 versus '24, the product mix was relatively better than '23. But it can further improve because we still have the scope to add a high-value product that is the reason if you look at our investment coming in Kreos and Chromia when they get properly matured we'll have better realization. So I think we have a scope to improve our product mix depending upon how we handle these technologies and how the market reacts.

Shreyans Jain:

Okay. Sir, my second question is on the India business. So how was India for us in '23, '24? If you can just give us some sense on how much did India do? And what is our ad spent budgets for India going forward for the next 2 years to 3 years? And when do you think India can be 10% for you in terms of overall top line?

Paras Jain:

The India business, we have been working with IKEA as a partner for quartz business. Apart from that, I think they have about over 100 touch points where the product can be seen and felt either way of displays or in terms of samples and all. So India business, typically, India is a larger geography and the dynamics of business are relatively different compared to the US because India stone market is largely unorganized, fragmented. So positioning a branded niche products typically takes time.



But you may be seeing that we've started already advertising in certain magazines, like you can find us on Vistara. You can find us on Air India and then some advertisements in Times of India. So we have -- our teams are working on the strategy for India, so we'll have more clarity on the India strategy in a quarter or so once we have -- because we just appointed a large team to take care of India market. So I think we'll be able to give you more color and flavor on India in a quarter or two Shreyans.

Shreyans Jain: Okay. Sir, my last question would be, so we did about 9% growth in our surfaces business. So just wanted to understand what would have been the volume growth for us because now high-margin products have also started contributing. So just wanted to understand the volume growth that we would have done this quarter?

Paras Jain: More than, I think, volume growth, we were focused on the value growth. Actually, if you see on year-on-year basis also, we are predominantly focusing ourselves to be able to deliver more value. Once we start delivering the more value, I think we can easily catch up on the volume side of this because we were focusing more on delivering the products, innovating with the new product, so our focus in the last couple of quarters or, in general, for the last year, has been on the value realization than incrementally increasing the volume.

Shreyans Jain: Okay. Okay. And sir, last question from my side is, sir, we'll be generating good cash and then we have some capex also lined up. So how are you looking at debt for FY '25 and '26, are you comfortable at these levels?

Viswanatha Reddy: We have a repayment of only INR40 crore for the next year, so it won't be any problems.

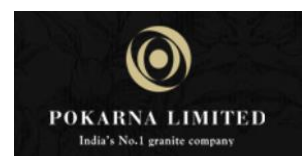
Moderator: Thank you. The next question is from the line of Naman Parmar from Niveshaay Investment Advisors.

Naman Parmar: I just wanted to understand what was the demand scenario in the US market and how it will be going to improve in the future? Can you explain that?

Paras Jain: Yes, so demand in the U.S. market is improving in certain pockets, if you had followed my opening comments, while certain pockets are still relatively flat. But some of our customers are reporting increased consumer optimism and confidence, and also certain pockets of hospitality are improving. Commercial projects are also seeing a little improvement. So overall, the demand scenario in FY '25 seems to be positive than FY '24.

Naman Parmar: Okay. And can you please help me to know how much percentage was the new product has contributed in the quarter and the full year?

Paras Jain: This is something, which we actually do not disclose for a proprietary reason. So what I can tell you is that which I answered in the biggest question of Shreyans, you see an improvement over last year in FY '24 without the volume increasing is because of higher value realization products coming in the portfolio.



Moderator: Thank you. The next question is from the line of Amey Chheda from Banyan Capital Advisors.

Amey Chheda: So I think you had guided for 15% to 25% revenue growth in your recent interview, 25? So if we are running at optimum utilization where will this growth come from, since the technologies will be commercialized in Q4 and Q2 only?

Paras Jain: Yes. So we have a revenue guidance assuming that the markets continue to add what we are foreseeing in next three to four quarters of 15% to 25% increment. So if you recall what I said to someone before was that we are focusing more on the value of the product than on the volume. So we believe that we have still a certain scope to improve our value realization. And through that value realization, we believe that our top line and the bottom line can expand.

Amey Chheda: Okay. And sir excluding these two technologies, just by selling more value-added products with exotic designs, we foresee that our optimum revenue can be around INR1,000 crore, I think, which you guided last year?

Paras Jain: It all depends upon how the entire product mix pans out, how much we are getting from the product mix from the thickness mix, from hospitality and all that segment. So all those alignment of starts across the different constants have to happen for that number to achieve. But I think currently, our focus is not on growing exponentially on the top line. The focus currently is growing on the bottom line aggressively so that we have cash to then deploy as we want in the near future.

Amey Chheda: Okay. And last question is, so any guidance on the granite's margins for FY '25?

Paras Jain: As I said, in the opening, that currently our focus is on the quarrying because in granite we have 2 divisions, the processing division and the quarrying division. Focus this year is with a renewed focus on quarrying business to make the division back on profitability. So I think that's the priority.

Moderator: Thank you. The next question is from the line of Sonaal Kohli from Bowhead Investment Advisors.

Sonaal Kohli: Did I hear you correctly that your inventory write-down was INR7 crore and advertising was also -- spending was INR7 crore I joined late, just wanted to confirm?

Paras Jain: Yes. What I said was that our margins were offset to a little extent for Q4 by a marketing expense of INR7 crore and a markdown of certain finished goods by INR7 crore additional.

Sonaal Kohli: To get the context right because you will do some marketing throughout the year, this INR7 crore was -- let me ask in a different way. Like on an annualized basis for FY '24 what would have been your advertising cost?

Paras Jain: That's what I told also. I think someone from your team asked me we said you have to look at USD2 million approximately as our annual budget on business promotions which is spread across three to four exhibitions.



Sonaal Kohli: This is for entire 2024 is what you are saying?

Paras Jain: Yes.

Sonaal Kohli: So basically INR7 crore this quarter and INR9 crore in the remaining three quarters, so INR4 crore extra this quarter compared to normal?

Paras Jain: Yes. Yes.

Sonaal Kohli: And INR7 crore of inventory write-off, so INR11 crore of one-offs in this quarter I got the math right?

Paras Jain: INR7 crore plus INR7 crore, INR14 crore, right?.

Sonaal Kohli: Yes. But you -- annualized you spent INR16 crore so if you annualize...

Paras Jain: If you annualize it, that's fine. If you go with annualization you're right.

Sonaal Kohli: And so sir, do you see your scope for a gross margin expansion from here on further or we have reached optimum level?

Paras Jain: Again, it's a question of how we get the value realization fixed so keeping that in constant, there is a good scope to improve.

Sonaal Kohli: And sir, I was listening to some of the other players in the industry, is the demand situation really just improved or it's very good as of now?

Paras Jain: It depends upon what you are currently catering to. So if you are catering to bottom of the pyramid, which some of them are claiming to be very good because they produce the basic products; products which have been sold at like sub USD4, USD5. So for them the market is really very, very good. But those who are focused on higher value realization for them, the -- medium to higher I think for them, the market is good.

Sonaal Kohli: And sir, this -- was any impact of one-off on freights also because of the recent issues?

Paras Jain: For us the freight is typically a pass-through item largely on the export side of it. Import side of it, yes, to some extent we had because the prices still have not come to a level on the import side of it as those were in the certain previous period, but I think largely the export ones are coming to a pretty normal conditions.

Sonaal Kohli: Understood. Thank you so much.

Paras Jain: Thank you Sonaal.

Moderator: Thank you.



Moderator:

Ladies and gentlemen, as that was the last question, I would now hand over the conference to the management for closing comments. Over to you, sir.

Paras Jain:

Thank you and it was a pleasure chatting with all of you and I look forward to connecting again in the next quarter. Thank you.

