OBL:HO:SEC:00: New Delhi : 16.11.2022

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Rotunga Building, Phiroze Jeejeebhoy
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Mumbai - 400 001

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 Q2 FY23 held on 09th November, 2022

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, please find enclosed transcript of Earnings Call held on 09th November, 2022 post announcement of unaudited financial results of the Company for the quarter and half year ended September 30, 2022.

The transcript of the Post Earnings Call for Q2 FY23 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: 2022.11.16 18:03:46 +05'30'

Yogesh Mendiratta
Company Secretary & Head - Legal

Encl: as above

"Orient Bell Limited Q2 FY23 Earnings Conference Call"

November 09, 2022

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 the Orient Bell Limited Q2 FY23 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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.

We have with us on 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 Relation Advisors. The management will be sharing the key operating and financial highlights for the quarter and half year-ended September 30th, 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 action 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 investor 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. This is Aditya from Orient Bell. A very good afternoon ladies and gentlemen and a warm welcome to our quarter 2 FY23 Earnings Conference Call. This quarter, demand was not as strong as what we have witnessed over the last few quarters along with a very steep increase in input costs, especially gas, Morbi reacted by curtailing production and running liquidation schemes, putting immense pressure on pricing.

Through the quarter, OBL has continued building business fundamentals and stayed away from discounting and credit fueled sales. This arrested our topline momentum and we ended quarter 2 with a 12% sequential growth and a 2.4% year-on-year growth. We saw a steep volume drop in low margin commodity traded products, especially like double charge and nano. This is one reason why our trading sales percentage was low versus the historical average. Costs have been a concern for quite some time now. Gas costs have increased substantially across plants while the increase was between 63% to 71% year-on-year for our two major plants at Sikandrabad and Hoskote. The gas cost almost tripled at Dora. Our manufacturing teams have been consistently working out solutions to reduce the overall impact, yet this meant a dilution of our margins. Nevertheless, we continued working on business fundamentals. Our collections were fantastic. DSO continues to stay below 45 days and the value of our sales without credit risk has increased to 43% versus 33% same time last year. By this I mean sales which is either coming on advanced payment or it is secured through a letter of credit or a bank guarantee.

Vitrified mix improved to 43% in quarter 2 versus 42% last year. This is in spite of our steep volume drop in double charge and nano. We have continued to strengthen our display footprint through exclusive Orient Bell Tile Boutique. So, far, this year there has been a net addition of 33 OBTBs in H1 taking the count of active OBTBs to 318. Branding recall keeps getting better driven by digital initiatives. September 22 versus September 21, our website traffic has increased by 60% and our social media engagement has increased by 260%. Branding investments were up 23% year-on-year during H1 and we have also continued to add more people to aid our scaleup. Net add on the people front was 29 in H1 of FY23. On the sales front, we have added the one new zone and two branches to improve our connect with clients. On the learning and development side, our teams have collectively spent 4,000-man hours on acquiring new skills.

Another great highlight for the quarter was the extension of the ESOP scheme benefit to more employees. Now, we have more than 50 key employees in the company who are under the ESOP scheme. On the CAPEX front, with the commissioning of line 3 at Hoskote, we have already completed our round 1 of growth CAPEX well within the agreed budget and timelines. Considering that the South and West are still far bigger opportunities and the fact that we still have a lot to catch up, we have decided to set up a new GVT line at our existing plant at Dora. The capacity of this new line will be 3.3 million square meters and we expect an outlay of Rs. 76 crores for the same. This investment would fuel our growth in the South and West.

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

Himanshu Jindal: Thanks Aditya. Good afternoon all. Overall, a challenging second quarter in recent times. Our topline at Rs. 171 crores was marginally higher in quarter 2 by 2.4% over the last year largely on account of the price increases implemented over the last few quarters. For the first half, the topline was Rs. 3.5 crores which was an increase of 28% Y-o-Y, volume gain being 12% and the ASP 14%. Given the one-offs associated with the last year base, what perhaps is more relevant is how revenues, volumes and prices developed versus the prepandemic levels. So, from a revenue perspective, quarter 2 topline at a 3-year CAGR was 12% up. For the first half, the CAGR was 10%. Volume for our own manufactured products grew at a 3-year CAGR of +8.5% which was aided by the strategic investments deployed by OBL over the last 2 years. For the first half, the CAGR was 7.6%, 3-year CAGR for total volumes was 5.1% for quarter 2 and 3.5% for first half. On ASP front, the 3-year CAGR was plus 6.5%.

Like Aditya mentioned, input cost primarily gas has been a dragger on the gross profit margin, which is a net reduction of 290 basis points versus the last year on own manufacturing. What is also relevant is the fact that our teams here at OBL have ensured that we do minimize the full-blown impact of the hyperinflation that we continue to witness across our plants. On a like for like basis, which is at constant energy cost in product mix, we were still able to save 7.6% of cost versus quarter 2 last year.

Just to add some more color to the production cost savings initiatives, so we have already modernized some of our old lines in round 1 CAPEX, replacing old driers or improving installations in our kilns, etc., through which we have been able to realize significant savings primarily on fuel consumption. So, this was lower by 18% in quarter 2 on a Y-o-Y basis. We also are drawing a significant portion of our power needs via trading or solar PPAs now at both Sikandrabad and Hoskote which is approximately 37% of our requirement. Beyond this, as gas is becoming more and more dearer we have earmarked more money for projects across our three plants to improve our flexibility to use alternative fuels. So, we are installing a new drier at one of our wall plant at Sikandrabad, upgrading our capacity at Sikandrabad and Dora to be able to handle biofuels which are almost 2-2.5x cheaper versus gas and simultaneously we are working on another project to use LPG at Hoskote. The total outlay on this ongoing improvement project is approximately Rs. 7 crores and they are expected to start yielding sometime between this quarter and the next.

Our spends on strategic identified areas including people, display, distribution, branding, product and even digital initiatives were continued, this meant that fixed cost stayed relatively elevated in quarter 2. Our branding investment for quarter 2 was 3.6% of the total revenues. On a Y-o-Y basis, this should have a role to play on profitability comparing to the pre-pandemic levels there is still a gain of 78%. On the margin front, this translates to 170 basis points. The consolidated PAT for the quarter was Rs. 6 crores or almost 3.5% of revenues. On the working capital side, while we did increase inventories for obvious reasons, we are still quite comfortable operating at less than 25 days on core cash conversion.

Moving on the CAPEX front, round 1 growth investments are over now and we have already largely digested the outflows of Rs. 68 crores that we had earmarked for these out of our internal accruals. The balance sheet continues to stay strong and this gives enough comfort for the next round of investment for a new GVT line at Dora which was approved by the board yesterday.

I think we can now request the moderator to open the lines for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aasim Bharde from DAM Capital Advisors. Please go ahead.

Aasim Bharde: Sir, you mentioned gas cost prices going up, can you also talk about the gas availability situation for your plant and in the immediate vicinity of these is the shortage too acute, how was it during Q2 and how has it been in October and what are you seeing on that one for November and December?

Himanshu Jindal: So, gas availability per se, Aasim is not a problem, we have long-term linkages across plants, so that is not a challenge. Yes, the price is going up or the costs going up for gas is definitely one and this is why I talked about fuel efficiency projects that we are running across locations.

Aditya Gupta: Aasim, I would like to add is, see as gas has become so dear, so expensive, we are also sensing that the overall demand for gas is also kind of contracting or maybe not growing at that faster pace as it was growing earlier. So, I think that is also some of the people were finding gas extremely or totally unviable are moving out of gas, so the net impact of all of this is that as far as availability is concerned or our ability to run our plants mainly without any interruption, this is not too acute.

Aasim Bharde: And just a follow-up on this, can you just let me know like who are the gas suppliers because what I understand there is a availability issue at least for GAIL in the North and apparently that problem is of a priority sector as well, so maybe if you could just help me understand who are your supplier?

Aditya Gupta: For gases, already GAIL is our supplier and we had engaged with them recently as last month and whatever we had discussions with them, we discussed the supplies that we need for the next 5 months and they have approved us that there is not going to be any problem.

Aasim Bharde: And there was no cut in gas supply in Q2 as well from there?

Aditya Gupta: Absolutely none.

Aasim Bharde: And just a second question basically on the biofuels that you mentioned or maybe even LPG which you are talking about for one of the plants that you are talking about, so how does it differ in terms of production economics versus natural gas, any sense if you can share on that part?

Himanshu Jindal: Yes, sure, biofuels are like I mentioned 2-2.5 times cheaper versus gas as on date today, so there is at least 30% to 50% minimum savings which are going to come in. LPG, we are trying that at Hoskote, the installation is already on. As on date again, there is at least 15-20% delta between gas and LPG there. So, these are meaningful savings which are going to come in very attractive payback terms.

Aasim Bharde: So, I understand that the cost is lower, but in terms of consumption, is that also like similar to natural gas, just like say one unit of natural gas produces X amount of tiles, the same one unit of biofuel will produce a same amount of tiles or is there more or less?

Himanshu Jindal: So, when I say cost, yes, when I compare cost and when I tell you 13-15% cheaper or 15-20% cheaper, I am talking landed after taking into account the impact of taxes and after taking into accounts the impact of each consumption, so there is obviously a difference in UHPs, so LPG would be 11,000-11,500, gas would be 9,500 for example, UHP, that is adjusted for it already.

Aditya Gupta: My point was we have been using biofuels for some time and it is not 100% replacement of gas, some of the production processes we are running exclusively on biofuels and some of them are now running exclusively on gas.

Moderator: Thank you. The next question is from the line of Naysar Parikh from Native Capital. Please go ahead.

Naysar Parikh: My question is on demand, obviously the demand outlook has been a bit weak, but what are you seeing in this quarter and the market leader obviously reported a flattish volume, our volumes declined by 10%, so what is the sense of the overall industry and our market share in that in this quarter?

Aditya Gupta: See, the demand as we said as I reported in the opening statement has been sluggish in quarter 2. We expect typically H2 is much better than H1 in our industry and most of Orient Bell if you see we historically had 55% plus of our revenues coming in from H2. So, we expect demand to pick up, but there are uncertainties. Lot also depends on how fast and how much say exports go up from Morbi. I think demand is improving, especially after the festival season is over, now it is all serious business for the next 5 months, but demand is improving, but it is not, the kind of the double digit, 20-30% growth that we had seen in the previous financial year.

Naysar Parikh: And what about pricing, you had not taken any price increases this quarter, so is there any plan to take any price increases in H2?

Aditya Gupta: See, we have not seen any price increase from any players actually implemented on the ground in the last 4 months and there have been some sporadic news items about price increases, but they have been more than compensated by passing discounts below the line. So, effectively as we are not seeing any price increases happening in the market, so as Himanshu said our tight focus has been on managing cost. Some more projects on cost like the Hoskote projects are increasing as Himanshu spoke about and all will commence from this quarter, so we will continue to do that and let us see how the industry behaves on the price increases so far quarter 2 also did not have any price increases.

Moderator: Thank you. The next question is from the line of Jojo Shaju from Alpha Invesco Research Services Limited. Please go ahead.

Jojo Shaju: Sir, in our presentation, we have mentioned that we continue to invest in people and we have added some 29-odd people during the first half of the year, so can you just guide us on how are we improving our distribution, organizational strength across various regions per se especially because in West we have very low revenue share, most of our revenues been dominated from North and Southern market, so how do you plan to grow in West and where this addition of people or addition of branches is happening, if you can just guide us our distribution strategy first?

Aditya Gupta: I will take that Shaju, thanks for the question. We have bulk of the people in that you see the 29 net adds would be coming in sales and distribution. We have been adding more and more branches and zones, so this is something that which doesn't change over a quarter dramatically, so I will give you a sense of where you had been 2 years back and where we are today. In the last 2 years, we have added 3 more zones, one for central which is MP and Chhattisgarh, we have added, West is our separate zone, with a separate zonal head which we never had before that. We have broken the South into two parts and added a zonal head there. We have also added I think 3 or 4 branches in the South and the West over the last 2 years and we have also started making inroads into the enterprise market in Bombay and Pune for example with people going in there. So, the concerted efforts over the last 2 years to strengthen our go to market in these two regions and just another thing, this is about the people piece. There are two big projects that we have done in the last say 6 to 9 months were both targeted towards the South and the West markets, one was the third line at Hoskote which we commissioned in September 22, the other project was the conversion of Dora line from Ceramic to Vitrified which we commissioned in June 22 and now there is a third very big project that we have announced about Rs. 76 crores which is for selling up of Vitrified line, GVT line in Dora and again this will be 100% directed towards the South and the West markets.

Jojo Shaju: So, what kind of volumes we see in the West let us say 3-4 years down the line because that has been our weakest spot as of date, so any broad targeted volume that we have in our mind, sir?

Aditya Gupta: Shaju, we don't have guidances in terms of volumes from a particular region on these things, but definitely West is about 5% of our revenues today and there is a huge scope of growing there and that is how the investment and all people and manufacturing is kind of going there.

Jojo Shaju: Because West is considered to be highly competitive market and it is closer to Morbi regions as well, then we are just wondering, what is significant and what are the targets that we have in our mind and how do we want to proceed further when it comes to gaining market share in West, sir, in North from what we understand, we are selling most of our portfolios being oriented towards the low value or ceramic tiles, so do we see scope to increase our realizations in Northern markets which is 50% of our volume is still happening over there?

Aditya Gupta: Yes, we have predominantly large share of Ceramic in the North market, but the fact also is that GVT is the fastest growing product category in North also for us and even on Ceramics there are a lot of sizes and product categories of Ceramics which we sell which are much more profitable, then say the DC and nano from Morbi for any player, so within the Ceramics also we have successfully carved out a niche where we are focusing on the products with better margins.

Himanshu Jindal: Jojo, if I can add to what you asked for initially, see there is roughly around, now I say 4.3 million square meters of capacity which is already added over the last two odd years for Orient Bell, organic capacity. Beyond that we also unlocked this 1.2 million square meters out of Dora one way or another. So, that is 5.5 and now we have announced another capacity of 3.3, so in a way once the capacities get digested which you said 3-4 years hence I don't know maybe earlier, may be later depending on the market situation, there has a huge amount of how do I say capacity and volume being available to OBL in terms of seeding markets and that obviously will reflect in the topline, so when we look at numbers or anything you know it is a general thing, you know in this sector, 1.5 to 2 times of topline potential generally is possible out of whatever you do on CAPEX.

Jojo Shaju: Sir, just one last thing from my end, if we look at the industry leaders' margins, the gap between their EBITDA margins and our margin used to be around 9-10% historically which is narrowing every year, so what kind of, few years down the line, 3, 4, 5 years down the line, what kind of margin gap we see between us and the industry leader and what is that aspirational volumes over the next cycle or during current cycle per se?

Himanshu Jindal : First of all, we need to realize as to how the gap is getting bridged out, one very clear on the ASP front, our gas in the market leader used to be in the range of 130-140, it is now Rs. 100

odd, so there is definitely like you say ASP gas getting bridged out over the year. More importantly, I think even on the cost side, the initiatives have been talked about which is changing the fuel mix and changing the power mixes to the extent possible is playing out and this is helping us retain in a way over normalized times I am saying improve our gross profit margins versus wherever we used to operate earlier, so that is helpful, but yes, on the fixed cost side, like we always say there are investments which are being made upfront whether some branding people etc., and this will have a play once all these capacities come up so that automatically the operating leverage will play out eventually and you will see margin enhancements, I am saying again in normalized times.

Moderator: Thank you. The next question is from the line of Naysar Parikh. Over to you.

Naysar Parikh: So, one question which I had on the margins that you were just discussing, given what you just mentioned on the initiatives that you are working on, what is the outlook for FY24, do you have any view of how the prices are, is it difficult to comment on the margins, how do you think about margins for the next 6 to 12 months?

Aditya Gupta: So, Mr. Parikh, extremely difficult to predict, if all the experts who have been predicting trends globally have kind of fallen flat in the last 3 years, no, I think we have been focusing on what we can influence rather than worrying too much about what is out of control, so as you had mentioned earlier, one thing which we have assured is that we have a steady supply of gas and no shortages we have on our plant, so I think that is one thing which we are taking care of. Second thing which we are doing is that by using a combination of fuels, we talked about, as Himanshu talked about biomass plus gas plus LPG now, we are trying to bring our overall gas cost down and kind of diversify our list from this one source of fuel to multiple sources and you would see that we have always had healthy gross margins in our manufacturing plants and we continue to kind of have healthy gross margins which is because we have very tight focus and a very strong culture on cost management and that is something which I expect will stand us an in good stead versus the industry even if things were to like go South in terms of gas pricing and other things.

Naysar Parikh: And the Vitrified new plant that you have, we start getting sales from them from which quarter?

Aditya Gupta: We expect this to be quarter 3 of FY24 and that is when it will be running.

Moderator: Thank you. The next question is from the line of Guneet Singh from CCIPL. Please go ahead.

Guneet Singh: If we talk about the gas prices which have hiked in this quarter, so as compared to Kajaria they have already started using LPG uses of gas, so what they suggested is that their fuel cost would come down from Rs. 65 to Rs. 55 starting Q3 itself, so my question is regarding timelines of alternative fuels that we are planning to use, when will they come in production and how do you project our fuel cost going forward like in quarter 3 onwards?

Himanshu Jindal: So, Guneet, first of all, we need to understand our plants were old, we modernized them like I said giving the round 1 CAPEX, we are putting in more layers of drier, are putting in drill installations, doing projects which had a very lucrative, let us say ROI. We are doing more and more, changing fuel mix, etc. Now, these projects that I talked about in my initial statements are getting done anytime between now till let us say December end and therefore eventually you will see savings coming in from quarter 4. So, that is the larger piece. How much like I said the LPG is approximately 15-20% on a landed apple-to-apple basis, cheaper, we logically not run the plant 100% on LPG, we will keep some gas, keep some LPG, similarly at the other places where we are trying to do biofuel project, in Sikandrabad largely is done already, Dora is something that we are doing now. So, this like I said has a cost advantage of anything between 30-40% going upto 50% rather. This will also eventually get done in this quarter itself. So, you should see that savings coming in from quarter 4.

Guneet Singh: So, quarter 3 we should expect fuel costs to remain the same hence they are coming in?

Himanshu Jindal: As I said, some part of the savings are already in especially at Sikandrabad because of the projects that we did in the past. So, I think we were early in understanding that gas prices would go up and we were actually doing those CAPEX ensuring that we don't get hit so much and this is why you are seeing that our margins have not gone down drastically. When I look at the results published by peers, I am seeing them down by 5% to 6%, are being down 1.6% sequentially and also on a Y-o-Y basis. So, that is first thing that you should understand. Now, from there can we further instill it ourselves, these are the projects that we are running like I said the two locations, especially two locations, the locations which are becoming larger with all these capacities of expansion coming into play, that should eventually play out between quarter 3 and quarter 4.

Guneet Singh: So, what would be our average price of fuel per unit as of now?

Himanshu Jindal: See, it has gone up like we have mentioned I think even in our IR release, it is up 63% at Sikandrabad in quarter 2, 71% at Hoskote, at Dora it almost tripled, so that is where the things were. Now, things have softened out a little at Sikandrabad because this is directly linked to crude and crude has softened. At the other places, the cost are a little higher as of now. So, Dora, it is obviously APM, the prices are available in the market, at Hoskote it is a CGD pricing mechanism which prevails there. It is in line with whatever the others are getting in the South.

Moderator: Thank you. The next question is from the line of Abhishek Gedam from Alpha Invesco. Please go ahead.

Abhishek Gedam: Sir, happy to see you go ahead with the new CAPEX, I just wanted to understand as one of our competitors putting up a large format tiles CAPEX, do we envisage any of those sorts of products get into via direct CAPEX?

Aditya Gupta: Abhishek, we are doing larger format tiles, but at this point in time, we find it more CAPEX efficient to do it through trading which is by buying through Morbi, so we continue doing that and keep evaluating what is the best time for us to put up a plant for that.

Abhishek Gedam: So, mainly we might look for JVs or maybe trading for large products, that is what I understand?

Aditya Gupta: Yes, both are possible, but during that large format slab plant, there were about 35-40 such plants which came up in Morbi in the last 1 to 1.5 years and so these tiles are available at attractive prices towards, so we will evaluate when does it make sense for us to kind of sink in our own capital for this, so let us see.

Abhishek Gedam: In terms of aspiration, sort of 3 years, 5 years down the line, where do we aspire to be in terms of our installed capacity and start the volume growth, so do we see ourselves like 55 MSM company, 60 MSM in FY26-27?

Aditya Gupta: So, Abhishek, yes, if you look at where we were 2.5 to 3 years back, I think pre-COVID FY19 or FY20 we did less than Rs. 500 crores and we have been growing through the COVID years both in topline and bottom line, so we have not set out number guidance for ourselves at FY26-27 where we would be, but we clearly have set out for ourselves like that we want to be a more significant player in the industry and the way to do it is through a sustainable business model which kind of, does not blindly run after a topline growth also, but ensures that our bottomline and return on capital and everything, etc., also grows hand in hand and that's what has been working for us in the last 2.5 years, I think we would have announced and implemented almost close to Rs. 200 crores of CAPEX and we have paid off large amounts of may be Rs. 80-Rs. 90 crores of loans, so we are happy to keep going like this, keep looking at projects for the next 2-3 years kind of perspective and keep growing. It is a large industry, so we have given our small market share and our very small, minuscule market shares in the West and the South, we think there is enough potential to expand.

Abhishek Gedam: The reason I asked was we have seen of entry of Asian paints also coming into Ceramics and also Simpolo, Varmora raising private equity capital, so what we understand is that they also will be going for a significant CAPEX, so in that sort of scenario, does it make sense to accelerate towards the CAPEX or how do you look in that sort of scenario?

Himanshu Jindal: You are absolutely right, there are new entrants coming into the market that always happens when you see margins going up, etc., there are guys who are strengthening themselves, so have we done as well. We were sitting on a debt of 2.5 times of net debt EBITDA, we have already paid off everything. We have also digested Rs. 100 crores of CAPEX like what Aditya mentioned. You know, today, let us look at the opportunities, I think these are challenging times, but these are also creating opportunities, just a quarter, 90 days does not reflect the trend. From the medium to long-term perspective, I don't think the demand drivers are going anywhere, so these are going to be strong, you will see offtake coming in, markets are broadening. Tiles are replacing a lot of other products, so you know in a way these are beautiful times to be invested into tiles, we have been saying we have done already 5 projects, we are doing one more which is not going to create a dent on our balance sheet, we are super strong. So, I don't think otherwise, I think it is a time when we need to invest, investing it, whenever we will see growth, we need to invest, when no one sees growth in the short term or when we see challenges in the short term, people are hesitant. I think it is the other way round, we need to invest now for good times as simple as that.

Abhishek Gedam: Could you share some light on annual report we talked about Ashwamedha project, can you share some light on this Ashwamedha project and is the expansion of the West and distribution sort of comes under this project and how do we see also a marketing expenses in rest of the years?

Aditya Gupta: Abhishek, the Ashwamedha project is a distribution expansion project. It is being done across the country and yes, you are right, there is a special thrust on this in our weaker geographies like West and we have been doing this now for 2.5 years now and we expect this to continue. More so, Abhishek, because we sense that the tier 2, and tier 3 cities are kind of opening up more and more for tiles and going for larger size of tiles, more Vitrified tiles and all and we are trying to put our distribution footprint and display footprint in those cities also. The second part of your question was, can you talk about the second part?

Abhishek Gedam: Yes, I was asking was right in the market expenses?

Aditya Gupta: Correct, you talked about marketing expenses, so I think we are spending about 3.5% of our turnover on marketing and irrespective of businesses we are very consistently doing that for the last many quarters and this trend would continue. Our focus within marketing has always been on digital marketing and that will also continue. We will continue to focus on that on social media and digital market.

Moderator: Thank you. Our next question is from the line of Bismuth Nayak from RW Advisors. Please go ahead.

Bismuth Nayak: Sir, Q-o-Q gross margin decline is a result of both mix shift as well as price hike not taken, right?

Himanshu Jindal: Yes.

Bismuth Nayak: So, how much of price hike would be required, just keeping the mix shift aside, how much of price hike would be required to keep margins?

Himanshu Jindal: See, fuel cost is changing every 10 to 15 days, every fortnight it is changing. Now, price hikes, just on the basis of these changes I can't keep my prices volatile so to say. Like Aditya mentioned, we haven't really picked up any news around actual implementation of price hikes by competition, so for us to be able to do anything right now would largely depend on how competition plays. So, let us see, for now, yes, there is a cost impact, for now you have seen margins going down a little. Like I said, it is 1.6% down versus whatever competition reported 5.5 to 6% down. So, I think there are a lot of initiatives like we mentioned on cost sides that we are working on, so let us see.

Bismuth Nayak: My second question would be on cost side only, can you quantify it anyway, so for example, other expenses as percentage of revenue for FY22, compared to that how much would we save for FY23 looking at the cost savings and other, so I am trying to look for structural cost savings that will come through out of this crisis?

Himanshu Jindal: I shared with you how much did we save on a like-for-like basis, keeping our product mix and energy cost constant that figure was 7.6% for the last quarter. So, there is a very clear drive to continue doing that, you will have to continue saving. How much, very difficult, like I said fuel prices are changing every fortnight, so to give you a very clear answer on this, I would rather hesitate to do that and finally let us see how the figures develop. Once we deliver you see the figures automatically.

Bismuth Nayak: And just one clarification, demand has slightly improved in October month, but any commentary on mix shift, has it remained the same or has it improved?

Himanshu Jindal: You mean product mix?

Bismuth Nayak: Yes, product mix.

Himanshu Jindal: The product mix has largely unchanged right now.

Bismuth Nayak: And this alternative fuel benefits they will start accruing from Q4, is that correct?

Himanshu Jindal: Yes, largely from Q4 at Hoskote and Dora, like I said Sikandrabad is largely digested

Moderator: Thank you. The next question is from the line of Pavnish Kumar from Hridya Cars Pvt. Ltd. Please go ahead.

Pavnish Kumar: First of all, congratulations on a very good set of numbers. I had a question like, our competitors they are diversifying into other fields in the same category, maybe launching new products, do we have any plan to diversify into any kind of another line?

Aditya Gupta: No, we want to stick to tiles at this point of time. I think there are a lot of attractive opportunities with lower payback periods within the tile industry for us to focus on rather than going for a totally different product line which by definition would have a much longer gestation period.

Pavnish Kumar: Secondly sir, we have improved our balance sheet to a very large extent in last 2-3 years, we are adding people, we are increasing salary expenses, we have increased the marketing expense, all of that is appreciated, but my concern is that still at the net profit margin level we are still at 3.5% and every quarter something or other happens, sometimes fuel prices increases or gas price increases or our sale decreases, so what do you think of or what is your outlook for next 1 year or 2 years, by when the condition shall become normal and this gets affected in our net profit margins?

Himanshu Jindal: Pavnish, you need to appreciate times have been very volatile. Last two years, we were fighting COVID every single time in the first half. This time has been normalized, but yes there are fallbacks coming in from whatever happened last year and then there is a gas cost inflation and the raw material inflation which is kind of hurting everyone. So, I don't know how to react to this, but yes, you are right, net profit margins have to improve. I think we are putting in the capital only to earn money to grow the business. So, that is the intent, but let us see, once we get normalized time, I am sure we will be in a better position to answer this.

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

Nikhil: I just have two questions, one is, sir, you mentioned on the biofuel, at one of the plants which we are trying to put up, just want to understand over a longer term, could it be a good enough solution or we would have to go back to gas or can this be a long-term solution or is it just a stop gap arrangement as of now, how do you see it over a longer period?

Himanshu Jindal: Nothing is permanent, it all depends on the economies. So, I am sure this is transitionary, but like I said when we are putting in money, we are ensuring that we are getting our paybacks in real time, so we were like I said ultra-short payback projects, there would be joy immediately, if the situation continues to be the way it is, then you will get a joy between short to medium term as well, but yes, eventually I don't think that gas prices are going to say elevated, we have already had what is happening in Europe, in US, in Europe whatever little I picked up the gas prices there hit the peak of €340 per MWh, today we are trading at 120 or even less. Similarly, Henry Hub shows that $9 has become something like $6, so the gas prices globally are coming off. I am sure there would be some impact coming into our markets also very soon and let us wait for that.

Nikhil: No, what I was trying to understand is the gas is an external product for the whole economy and we are dependent upon the vagaries because we are a consumer and not a producer, but if we move to buy fuels on a sustainable basis, will these vagaries reduce significantly or this is possible or is it not possible?

Himanshu Jindal: So, just to give you an idea, with all the projects that we are running, our intent is to have at least 50-60% flexibility in terms of change in fuels. Whatever is relevant economical at any point in time will be used, so gas will definitely be an important part of the fuels that we fire in our kilns, but yes, in spray dryers, etc., wherever we have the flexibility we can switch over fuels very fast now.

Nikhil: Second question sir, now if I go through our last 3-4 year's annual report and our balance sheet and calls, I think we have done a great job in terms of improving the business profile and the financial matrices of the business, what I want to understand is, but over a 3-year period, if I look at our volume CAGR versus the industry volume CAGR, we are still in line with the industry, while our scale is much lower, so one would have expected that the investments which we have done should have helped us grow faster in volume, so just wanted to understand where are we in terms of these investments and the stores probably or the retail points which we have opened over the last 2 years, added over the last 2 years, how is the reception of our brand in those store points?

Aditya Gupta: Nikhil, this is a complicated question, I will try to answer this completely. See, I think the first thing is that being a small company if over the 3 years which have been the most volatile and the most uncertain and difficult years in business in the last 15-20 years, the balance sheet has been improved dramatically for rather cash conversion cycle from 17 days now down to 17, 18, 20 days kind of a thing, so lot of that step is happening and this has happened as you said in a way that the volume CAGR is part of the industry. So, I think, I said it in the opening statement also we are very focused on sustainable discipline growth, we do not want to chase volumes or chase the topline revenue without really looking at the profitability of that business. We are not a Morbi player, we don't want to run a business like Morbi does. So, that is one part of the answer. The other part is, in terms of geographies, it was asked before also, see the West and the South markets are the faster-growing markets in our country on tiles in the last few years and unfortunately for us, these had historically been our weakest markets. So, without having meaningful presence in West and South to grow at the same rate as a competitor all India is kind of putting on pressure on us in the earlier we were dependent on North and East our core markets were doing that and that is why we have been turning our eyes, moving more towards the West and South. As I said, sometime back, with the CAPEX, which is announced yesterday, we have announced about Rs. 110 crores of CAPEX between Hoskote and Dora in the last 1-1.5 years. All of this is targeted toward building up our salience and our presence in South and West. Once we are a meaningful player there, once these capacities come online, Hoskote capacity has come online from October, so early days yet, the conversion of Dora line to GVT happened 3 months back, the initial signs are very good, our new line in Dora which you talked about will come say 12 months from now. So, I think you will see over time this situation also changing and once the West and South start firing for us and coupled with the strength in North and East, we would definitely start gaining market share at a much faster pace, but as I said before we do not want to go after volumes and topline blindly at the cost of long-term sustenance and health of the company.

Nikhil: Just one continuation here, now, I understand that we want to maintain the profitability and we have displayed it over the last 3-4 years which probably was a most volatile period for the whole world as well and we have done a great job and since when the new management team joined the company, that was one of the primary goal, but now if I have to ask your goal over the next 3-5 years because once the balance sheet is in proper place, when the CAPEXs are in proper line and even profitability has improved to a decent level for the company, if I have to ask you over the next 3-5 years, what would be your vision of the company, will you say that incrementally now market share gain while maintaining the profitability at where we are is the key focus area for the company and in order to achieve that we have been hiring people, we have been adding people, but what else or what extra do we need to do?

Aditya Gupta: So, Nikhil, for future goal definitely we are putting all these CAPEXs and all and the goal is to gain revenue, but to gain revenue in a way which also helps us generate enough funds say for the next CAPEX and the next CAPEX after that, so we are focused on revenues, you also said that our growth has been at par, I would actually disagree a bit because in the first COVID year I think we were the only listed tile company which actually grew in the first COVID year the whole world was shut down, we grew a small 2%, but it was still a growth in terms of our topline. The second COVID year, as a company we grew topline by 30% which I think again was best in class amongst all the listed tile players in the industry, so we have been growing revenue at a fast pace at the best or higher pace in the industry for the last 2 years and we have done this along with strengthening our balance sheet along with ensuring that our EBITDA margins and our profitability margins keep going up year-on-year. We are now in a situation where you see as I said earlier demand being a bit sluggish, but we continue to be on this path and we will keep growing revenues and hopefully, we will also keep growing our margins. I will just give you one data point, if we were to take gas pricing as the same as quarter 1 versus the actual of quarter 2, at Q1 equivalent gas prices, our EBITDA would have been about 80-90 basis points more than what it was in quarter 1 and the gas prices, fuel prices is something which is absolutely totally out of our control, we can only react to it, we cannot influence it even 0.01%. So, the guideline is, the direction is very clear to grow revenues aggressively while at the same time ensure that we are generating enough and more funds for our next expansion and the next expansion after that.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to the management for the closing comments. Thank you and over to you.

Himanshu Jindal: Thank you so much.

Aditya Gupta: Thanks everybody.

Himanshu Jindal: Thanks for your questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Orient Bell Limited, that concludes today's call. Thank you all for joining us and you may now disconnect your lines.