CSL/2024-25/335
21st November, 2024

To,	To,
BSE Limited Corporate Relationship Department 1st Floor, New Trading Ring Rotunda Building, P J Towers Dalal Street, Fort, Mumbai – 400001. Scrip Code :532443 Scrip ID: CERA	National Stock Exchange of India Limited Exchange Plaza Bandra Kurla Complex Bandra (East) Mumbai – 400051. Scrip Code: CERA

Dear Sir/Madam,

Sub: Transcript of the Conference Call held on 13th November, 2024
Ref: Regulation 30 of the SEBI (LODR) Regulations, 2015

With reference to our letter CSL/2024-25/316 dated 30th October, 2024, intimating you about the Q2 FY2025 Earnings Conference Call held on 13th November, 2024, please find attached the transcript of the aforesaid conference call.

The same is available on the website of the company, i.e. www.cera-india.com

We hope you will take the same on your records.

Thanking you,
For Cera Sanitaryware Limited.

HEMAL JANARDAN SADIWALA

Digitally signed by HEMAL JANARDAN SADIWALA
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Hemal Sadiwala
Company Secretary
Encl: As Above

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Cera Sanitaryware Limited

Q2 & H1FY25 Earnings Conference Call Transcript

November 13, 2024

Moderator: Ladies and gentlemen, good day and welcome to the earnings conference call of Cera Sanitaryware Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mayank Vaswani of CDR India. Thank you and over to you.

Mayank Vaswani: Good morning, everyone, and thank you for joining us on the earnings conference call for Cera Sanitaryware Limited, which is being hosted for the second quarter and first half of financial year 2025, the earnings of which were announced yesterday. We have with us today, the management team comprising Mr. Vikas Kothari - CFO; and Mr. Deepak Chaudhary - VP, Finance and Investor Relations.

We will start with brief opening remarks from the management, following which we will open the call for Q&A. A quick disclaimer before we begin; - some of the statements made in today's conference call may be forward-looking in nature, and a detailed note in this regard is contained in the results documents that have been shared with all of you earlier. I would now turn the call over to the management for their opening remarks.

Deepak Chaudhary: Good morning, everyone. On behalf of the management team of CERA Sanitaryware Limited, I would like to welcome you all to our earnings conference call. I will begin by sharing some updates on the operations and strategy, following which our CFO, Mr. Vikas Kothari will run you through the key financial highlights.

Building on the challenges of the first quarter, Q2 FY25 continued to face market pressures, which was further intensified by an extended monsoon season. Despite these headwinds, Cera recorded revenues from operations of Rs. 490 crore and profits after tax of Rs. 68 crore for Q2 FY25, achieving a year-on-year growth of 6.3% and 19.7%, respectively. EBITDA for the quarter was 88 crore, marking a marginal increase of 0.8%.

These results underscore the resilience of our core business segments and our ability to adapt and perform in a complex environment. Compared to Q1 FY25, this gradual demand uptrend strengthens our optimism for a steady recovery as we progress into the second half of FY25.

In terms of segment contributions, sanitaryware and faucetware accounted for 46% and 41% of the total revenues, respectively. We are optimistic about the continued recovery in demand in the second half of FY25 and our ability to effectively leverage this momentum to drive growth. New product development across all segments accounted for 34% of total sales in this quarter.

To address the impact of rising input costs, namely brass prices, wherein prices increased by 18% between March and June, we implemented a strategic price adjustment in September 2024, applying a 6% increase for faucets and 1% increase for sanitaryware. These pricing adjustments are expected to help cushion our margins in the upcoming quarters, supporting our ability to maintain profitability in a challenging cost environment.

We remain focused on gradually expanding our footprint in the luxury segment. The ongoing expansion of SKUs across our premium brands, Senator and Luxe, will enrich our presence in this market, catering to the increasing demand for high-value, design-centric bathroom solutions. As consumer preferences evolve towards luxury properties and sophisticated fittings, we are enhancing our product range offerings, including innovations such as electronic toilets, touch-free flushing with vibe sense, tankless sensor closets, etc., to meet these expectations. While it may take some time for significant results to materialize, our strategic efforts have established a robust foundation for future growth, and we are confident of the long-term potential of our high-end offerings. Having said this, our flagship brand Cera continues to perform well across key markets. The expanded faucetware capacity, which now stands at 4 lakh units per month, is yielding positive results, with utilization rates steadily improving.

There remains a noteworthy opportunity in the growing faucetware segment, with demand further driven by a shorter replacement cycle compared to other categories. We have seen subdued traction in the sanitaryware segment in the recent months but are confident that our pickup is around the corner, which will allow us to capitalize on strong growth potential of this segment. As a result, we are well placed across both sanitaryware and faucet ware segments to capture growth opportunities.

Land acquisition for sanitaryware greenfield project has been completed. The construction of the new facility would be completed in 18 months from the zero date. It is not expected that expansion shall start in the current financial year, looking at the current market situation. The start date shall be revisited at the end of the current financial year.

With adequate inventory levels, we have optimized our production strategy to balance production and inventory, achieving faucetware capacity utilization of 93% and sanitaryware capacity utilization at 89% in Q2 FY25. These initiatives will strengthen our ability to effectively meet anticipated demand, and we expect enhanced performance as the market continues to stabilize and grow.

Our planned CAPEX for FY25 stands at Rs. 25 crore, of which we have already deployed Rs. 11 crore by H1 FY25. These investments are directed towards key operational enhancements, including upgrades to our sanitaryware and faucetware facilities, improvement to customer touch points and advancements in IT infrastructure. This CAPEX aligns with our strategy to drive operational efficiency and consistently deliver high quality products.

In terms of marketing, Cera continues to maintain strong visibility in the market. Our advertising spends are on track, with Rs. 16 crore allocated in Q2 FY25 compared to Rs. 15 crore in Q2 of FY24. This level of investment reinforces our brand's presence and supports our premiumization efforts, particularly in Tier-2 and Tier-3 towns where we see growing demands.

Since the launch of the Retailer Loyalty Program, we have enrolled over 21,700 retailers with more than 3.6 lakh invoices recorded. This program has been instrumental in driving loyalty and supporting retail sales. Of the total retail sales amounting to Rs. 97 crore, 39% are eligible for loyalty rewards. We continue to see strong engagement with our loyalty program, which underpins our market position and fosters stronger partnerships within the retail network.

As part of our strategic initiatives, we are also strengthening our B2B sales approach. B2B sales contributed 37% of Q2 revenue, demonstrating our selective focus on project sales that align with our profitability and margin goals. We believe that balancing our B2C and B2B sales channels while optimizing inventory levels enable us to effectively capture growth opportunities across various varied market segments.

During the quarter, we successfully concluded the buyback of shares amounting to Rs. 130 crore. The buyback involved purchase of 108,333 fully paid-up equity shares at Rs. 12,000 per share, effectively returning part of the surplus cash to shareholders. This initiative, along with our consistent and steadily increasing dividend payments over the years, reinforces our commitment to delivering value to our shareholders while uploading a robust financial foundation.

Our business fundamentals remain strong, supported by five key pillars:

- First, our operational excellence with advanced automated processes in our sanitaryware and faucetware facilities.
- Second, our disciplined capital management, which has strengthened our financial position.
- Third, our efficient operations, including just-in-time vendor arrangements, streamline inventory management, and the focus on receivables.
- Fourth, our strong distribution network, built over many years, which ensures the ability and accessibility of Cera products, enhancing our market reach and customer satisfaction.

- Finally, our commitment to innovation drives continuous improvement in our product offerings, ensuring we meet evolving customer needs and maintain a competitive edge in the market.

To summarize; Q2 FY25 marked an encouraging period as we observed early signs of recovery within a relatively challenging macro-led environment, and we anticipate improved performance in the second half of this financial year. As we expect an uptick in the demand, Cera is poised to capitalize on the growth momentum. The Company remains committed to its strategic initiatives aimed at sustaining growth, enhancing brand visibility, and strengthening its market presence. We are confident that our focus on innovation, advancement, and financial prudence, coupled with our inherent strengths, position us to effectively navigate any macroeconomic uncertainties and drive value for our stakeholders.

With this, I would like to hand over to Mr. Vikas Kothari – our CFO, who will present the operational and financial highlights for the quarter ended 30th September 2024. Thank you, and over to you, Mr. Vikas Kothari.

Vikas Kothari: Thank you, Deepak. A very good morning to everyone. I will now provide a brief overview of the Company's financial performance for the quarter and half year ended 30th September 2024.

In Q2 FY25, revenue from operations stood at Rs. 490 crore as against Rs. 461 crore in Q2 FY24, registering an increase of 6.3%. EBITDA in Q2 FY25 stood at Rs. 88 crore as against Rs. 87 crore in Q2 FY24. EBITDA margins for the current quarter stood at 17.3% as against 18.4% in Q2 FY24, registering a decrease of 110 basis points. This decline in margin was mainly on account of increase in 'opex' cost, which is partially offset by favorable absorption.

Gas prices remained favorable during the quarter. The average gas price from GAIL was Rs. 28.46 per cubic meter in Q2 FY25 as opposed to Rs. 28.72 per cubic meter in Q2 FY24. The average gas price from Sabarmati, which rose to Rs. 53.89 per cubic meter in Q2 FY25 from Rs. 44.53 per cubic meter in Q2 FY24. The positive trend is further supported by increased drawal of gas from GAIL reaching 78% in Q2 FY25 compared to 70% in Q2 FY24. The weighted average cost of gas in Q2 FY25 was Rs. 33.95 per cubic meter, which is notably below the industry average. Gas cost constitutes 1.55% of the total revenue.

For the quarter under review, revenue contributions were as follows: sanitaryware at 46%, faucetware at 41%, tiles at 10% and wellness at 3%.

On a Y-o-Y basis, faucetware revenue increased by 20%, wellness by 38%, while sanitaryware revenue decreased by 6% and tiles by 11%. The sanitaryware and faucetware segments remained the cornerstone of our business and have contributed 87% of the total revenue.

In Q2 FY25, 41% of our sales were in the premium category, 34% in mid category and 25% in entry-level category.

Profit after tax was Rs. 68 crore in Q2 FY25 as compared to Rs. 57 crore in Q2 FY24, registering an increase of 19.3%. EPS for the quarter stood at Rs. 52.44 versus Rs. 43.74 in Q2 FY24.

In terms of the working capital management, inventory days increased from 73 days to 80 days, receivable days increased from 29 days to 33 days and payable days decreased from 42 days to 41 days. Consequently, the net working capital days increased from 60 days to 72 days in Q2 FY25.

Regarding the sales distribution, Tier-1 cities accounted for 34% of the total sales, Tier-2 cities - 21% and Tier-3 cities led with 45% of total sales.

For H1 FY25, the Company reported net revenues Rs. 888 crore consistent with H1 FY24, EBITDA - Rs. 160 crore, a decrease from Rs. 171 crore in H1 FY24, profit after tax - Rs. 115 crore, a slight increase from Rs. 113 crore in H1 FY24. Overall, the Company maintained stable revenues and profit on Y-O-Y basis.

As on September 30, 2024, our cash and cash equivalents stood at Rs. 659 crore, marking a decrease of Rs. 92 crore or 12.3% compared to the previous corresponding quarter. This reduction was mainly on account of buyback offering during the quarter.

In conclusion; I would like to emphasize that Cera remains dedicated to upholding strong financial discipline and effectively managing our resources to drive profitability. Our focus on operational efficiency and strategic initiatives will ensure as we continue to strengthen our financial performance.

With this, I would now request the moderator to open the line for Q&A. Thank you so much.

Moderator: We will now begin the question-and-answer session. We will take our first question from the line of Jenish Karia from Antique Stock Broking.

Jenish Karia: While your commentary on premiumization is very encouraging, however, we can see that in your premium mix, which has fallen down to 41% during the quarter and also in your gross margin. So, considering the faucetware segment mix has improved to 41% compared to 36% in the last year, the gross margin do not reflect the similar performance. So, any highlight on that, why the gross margin is not reflecting the premiumization?

Deepak Chaudhary: In respect of the gross margin, the one thing which we would want to highlight is that the premium offerings as well as the entry levels both have been kind of stressed because of the market conditions. Also, in the last few quarters, if you see the amount of discounts that we have been offering, has gone up. Now the encouraging trend which has been happening in this particular quarter is that the discounts have started to kind of pull back. We have reduced our discounts as opposed to the previous few quarters. We are at same levels as we were in the previous year. So, that is one positive trend which has happened that the discounts have come down. But simultaneously, especially in the faucetware segment, the costs have gone up compared to the previous year, that the impact on the gross margins is not visible. The premiumization drive, which you are talking about that is something which will yield results over a period of time, but on a quarter-on-quarter basis, the larger impact comes in on account of the discounts and the cost impacts. So, we have been able to maintain margins in the kind of, we can say, the stressed environment which is prevailing right now and that has been primarily because of the kind of discounts which we have been able to pull back which has been slightly hampered by the extra cost increase which has happened from the last year's corresponding quarter.

Jenish Karia: And could you quantify the discounts and reason for increase in other expenses on a sequential and Y-o-Y basis?

Deepak Chaudhary: Discounts have come back to the previous level. If I compare with immediate preceding quarters, discounts have come down by something like 1.25% to 1.5%, and the costs increase is happening across all segments like especially in faucets, the brass prices have increased significantly. There have been increases on account of the inflationary impact also, like our salary costs, they go up on a regular basis on a yearly basis. They would be increasing on an average by roughly 10.5% to 11%. So, the gas costs have kind of remained stable. So, we have been benefited by, to that extent, in respect of the gas costs. So, the inflationary impact is there…

Jenish Karia: I was asking about other expenses.

Deepak Chaudhary: In other expenses, most of the expenses are unique in nature; like most of them have happened in this particular quarter. I will just give you a breakup of the major expenses which have led to the increase. One would be, we have carried out the buyback during this particular quarter. So, there were buyback expenses that was to the region of Rs. 1.8 crore. Power generation costs have gone up; they have gone up by something like Rs. 4 crore. That has been mostly an account of reduced generation from our wind farm. Normally, what happens is; when the wind farm which we have that generates power, so we get a credit for that, and our own power bill goes down. So, in this particular quarter, the power generation was down because of which the fuel and power costs went up by Rs. 4 crore. There were some showrooms that we had closed. We had to write off some assets in that respect. So, loss in respect of that came to something like Rs. 1.15 crore. And rental increases was in the region of Rs. 1 crore. So, that will kind of explain, roughly, I think, Rs. 7 to Rs. 8 crore of increase in the other expenses.

Jenish Karia: That's very helpful. My next question is on the balance sheet; we did a Rs. 130 crore buyback. But if I look at the cash flow statement, it shows around Rs. 160 crore. So, am I missing something or am I reading it wrong?

Deepak Chaudhary: You are right. Rs. 130 crore was the amount of buyback; and you have to also pay tax on that separately. As of now till October, if you are conducting a buyback till the period of October, before October, then the buyback tax liability was on the Company itself. Now when you do a buyback next time, that tax liability will not be on the Company. It will be on the person who is receiving the buyback money, on the shareholder. That balance which you are seeing is on account of the taxation.

Jenish Karia: Do you want to revise your long-term guidance that you have given of Rs. 2,900 crore revenue? Also, the recovery that you mentioned in second half that you seeing, is it majorly from the project's business because our B2B mix also has been improving, i.e the B2B sales mix?

Deepak Chaudhary: Regarding the first question, whether we are wanting to revise a guideline of Rs. 2,900 crore by March 2027; see when we were making the projections, we had already factored in that the first two quarters of the current financial year would not be going as strong. And we foresee that with the kind of upswing which should happen in H2, we should be ending the current year with kind of high single-digit growth kind of a situation. And we foresee 20% plus kind of growth in the next two years. And that guidance which we have given for 2,900, as of now we would want to continue with that. There is no change in respect of the 2,900 by March 2027. Your second question was in respect of?

Jenish Karia: The recovery that we are seeing, is it majorly from the project side of the business in tier-1 cities and like that because our B2B sales mix has been increasing?

Deepak Chaudhary: Correct. If you look at the total project business, in the last six months from March to September, it has gone up by around 15%. And we anticipate a strong project demand in the coming half year also. But we are anticipating that this pickup in the retail segment should also happen in H2, because most of the factors which was there were specific factors which were operating this first half year. There were elections, there were extended monsoon, there was kind of an extreme heat wave. So, we don't foresee that same thing should be happening in H2. And we anticipate that along with the project, the retail business should also pick up.

Jenish Karia: So, if project mix is increasing, should our margin for this year be around 14%-15% only or should we get back to 16%-18% rates?

Deepak Chaudhary: No, we should be having margin in the range of 16%-17%. We had done something like 14.3% in the current quarter. With the price increase implemented in faucetware, a 6% increase happened in faucetware, 1% in sanitaryware; so, the total impact in that respect in the second quarter rather in the second half should be to the extent of 1.5%. And the increase in volume etc., will enable us to better lead to better absorption of fixed cost. So, we should be back in that range of 16% to 17% in the coming H2.

Jenish Karia: When you say we expect 20% growth in the next two years, why don't we prepone our sanitaryware capacity expansion and why wait till the end of the year?

Deepak Chaudhary: The reason is that if you look at the current capacity utilization, we are something at 88%-89% for sanitaryware. We have adequate, we can take it up to something like 120% which we have been doing in the recent past, like if you go back, let's say, by 1-1.5 years, we were something like 115%-220% capacity utilization was the working of the sanitaryware plant. So, we have quite some leg room over there to increase capacities. Second, what has happened is with the reduction in the demand in the sanitaryware segment, the mix has also changed within the sanitaryware plant. Earlier there were quite a few items which we were outsourcing which have now with the kind of reduction in optic and an increase in the inventory, we have changed from outsource to in-house. So, once the demands start picking up, we have even scope for again changing all these products which we have started manufacturing in-house to back to outsource. So, we have space to increase our production. One is that we can increase our production by, we can say, from 89% to 115% to 116% which we were doing earlier. And second is that we can again change the mix. The items that we have brought in-house can again be outsourced. Plus, we also have a kind of inventory which we have built up over this period which can also take care of any interim demand spikes which can happen in between the time that we take up, start and complete our new sanitaryware project. So, in view of all these situations, we are holding up till the end of the year to take a view again and then start the project.

Moderator: The next question is from the line of Praveen Sahay from PL Capital.

Praveen Sahay: Sir, in your opening remarks, you had said about the expansion of our products in the luxury and the premium segment; whereas on the number side if I look at for a quarter atleast, your other side of the business growing or their contribution has increased. So, whatever the launch or the strategy change you are doing is going to impact or reflect in the coming quarters?

Deepak Chaudhary: Yes, I will just try to answer that in the kind of the demarcation that we do in our business. The luxury segment which we talk about is something that we are trying to explore. We have mostly been in the entry level, mid-level and the premium segment, and the entry level is more where the multinationals are operating. So, we have now started up a program where we want to, let's say, within the next three years to five years, we want to have a total turnover of at least 10% coming from this luxury segment, but this program is going to take some time. As of now we are in the process of building and refurbishing the kind of revamping our total luxury portfolio. So, as of now we are in the process of revamping the products. This we anticipate should be completed by the end of the current financial year wherein we will be having a total revamped portfolio and the formal launch of that should be coming by the end of the current year. Next stage would be the kind of you can say, placement of that particular product for which we will be having kind of 50 branch stores which would be kind of dealing exclusively with these products, only the luxury products, not displaying a high-end products, not mixing it with the regular products. So this we intend that by March we should be having roughly 25 stores ready and balance 25 should be coming in within the next financial year.

So, the luxury segment is a kind of long-gone program which will take some time, and it will be more or less a target of three to five years as I said before by which we are targeting 10% of our revenues should come from this segment. And the balance, the effort is always there to try to be like introducing products in the premium segment and that movement is again a gradual affair. You find that currently more of our offerings even within the entry range and more moving towards the higher price level. So, that is something which was happening on a continuous basis, and you will find that it has started lifting the results in a more phased manner much sooner than as we expect for the luxury segment.

Praveen Sahay: The next question is related to the faucetware which has given some 23% of growth on the Y-o-Y side. Also, you mentioned about 6% increase in the prices which has been undertaken. So, in the 23%, 6% is the prices, rest is the volume growth you had done?

Deepak Chaudhary: No. This 6% which has happened, that will be happening more in the future. This price hike was announced by the middle of September. So, the effect would be coming in the future period i.e in H2. But the impact, again, would not be 6% because what happens is the project business is something where the price increase takes some time to materialize, because most of the business is where the orders are already locked in, and the effect of price increase would take some time to come in. So, in the H2 on the basis of your price increase it will be to the effect, you can expect an increase more to the effect of 6% into, you can say, 60%, a rough cut 3.5% in the faucet ware.

Moderator: We will take our next question from the line of Udit Gajiwala from Yes Securities.

Udit Gajiwala: On the faucet segment where we have displayed growth, I believe you have mentioned that project is one part, but otherwise the retail was soft. So, has the discounting been more to gain market share and we have pushed volumes? Was that a strategy for the quarter?

Deepak Chaudhary: Can repeat your question?

Udit Gajiwala: Sir, for the faucets we have seen huge growth versus our peers have definitely underperformed as per their numbers. So, these discounts and initiatives as per your remarks you have rolled back. But during the quarter, was there a discounting thing or higher incentives given to push the volumes?

Deepak Chaudhary: No, there has been no increase in discount in faucetware. In fact, as I mentioned earlier, vis-a-vis the immediate previous quarter, the discounts have come down. So, in faucetware we are seeing an actual increase in volume, both in the project as well as in the retail market. That is primarily on account of the fact that we believe that the retail business in faucetware is benefiting because of the fact that it has a shorter replacement cycle as opposed to your sanitaryware. Also, because the total average cost of a faucetware is much lower as opposed to that of a sanitaryware, whenever a discretionary spending kind of goes down, you will find that higher spending items is held back and we feel that on account of that, the sanitaryware market is not doing as well as faucetware. So, faucetware, because of its shorter replacement cycles as well as, you can say, lower kind of pricing as compared to sanitaryware and other categories, they have been kind of having an upswing in the current quarter, both in the retail as well as projects. We anticipate that even going forward, sanitaryware, which had been muted in the retail segment, should also start looking up and in the coming H2 or maybe in the next year, we should start seeing that be reflecting in the sanitaryware segment also. To again summarize and answer your question; there was no discounting in faucetware. It was an upswing in both the retail as well as the project B2B segment, upswing in the volumes.

Udit Gajiwala: And when we look at your remarks stating that a 20% kind of a growth is possible for coming two years; so, does that mean that we are in a cycle where with the pickup and handover of real estate, we may see sanitaryware, faucet demand picking up or it's more to do with the new construction, if you can just throw some light.

Vikas Kothari: So, regarding this point of the growth, which is coming in the coming next few years; so when we prepared our guidance for reaching Rs. 2,900 by March '27, we had taken detailed ground-level inputs as well as from our internal team. And we found that considering this up to H1, there is going to be slowness, which is evident also and is seen with the competitors also. We see that from H2 that the things will improve and we will see upswing in retail segment also. Projects, like Deepak mentioned; already if we compare the previous six months' data, there is an upswing because post COVID, whatever the projects which have started are going to be reaching their completion stage. And this will enable us to achieve our estimated growth, which is going to be 20% roughly in financial year '26 and '27 to reach out to our guidance what we have given.

Moderator: We will take our next question from the line of Mithun Aswath from Kivah Advisors.

Mithun Aswath: You mentioned that the second half is looking better, so I just wanted to get your thoughts in terms of; do you think the sanitaryware which has declined in this quarter, do you see a pickup happening there in the second half, and obviously faucetware is growing. So for the full year, what sort of kind of overall growth would we end up with? Also, with this price hike you have taken in faucetware, do you see margins improving quarter-on-quarter? You have taken some hike also on the sanitaryware side. So, just wanted your sense on would there be improvements in margins as well in the next two quarters. That was my first question. My second question…

Deepak Chaudhary: I will take your first question first. Regarding your overall growth, like faucetware as well as the sanitaryware, for the entire year, we are anticipating that we should be ending with kind of a high single-digit kind of growth. As I mentioned when we were answering the previous question, that the retail segment as of now in sanitaryware has been not doing well. The project segment has already started showing some signs of improvement in the sanitaryware segment. So, we anticipate that the H2 going forward, once the retail market also picks up, we should be ending up with stronger volumes in sanitaryware. Faucetware, we have already started showing good growth numbers. We expect that this should continue in H2 also. So, with the retail segment picking up, we should expect to end the entire year with high single-digit kind of growth. In respect of margins, we anticipate that we should be reaching back to that level of 16% to 17% for the Company as a whole, because price increase will be giving us some leeway in terms of improvement of the margins. But the cost pressures have also been there, costs have also increased. So, on an overall basis, we anticipate that with the price increase, we should be having a benefit of 1.5%. So, we should be ending up in the same range of 16% to 17% for the second half.

Mithun Aswath: 16% to 17%, right, you mentioned?

Deepak Chaudhary: Correct.

Mithun Aswath: And just wanted a better sense; there is no capacity expansion happening in sanitaryware in the next couple of years. It is going to take 18 months to set up. So, your Rs. 2,900-crore revenue target is not with this expansion, right?

Deepak Chaudhary: That is correct, because as I explained earlier, we have a lot of leeway within our current facility to increase capacity and with the kind of inventory that we are having right now, plus the kind of outsourcing arrangement that we have with our partners. All these factors taken together; we feel we are comfortable with the kind of volume increases which will happen over the next two years. So, within the next two years for reaching the 2,900, we don't anticipate any capacity challenges with the current plant.

Mithun Aswath: So, this new capacity of sanitaryware would give you growth from FY28 onwards, right?

Deepak Chaudhary: Correct.

Mithun Aswath: And what is that CAPEX and what sort of revenues can we achieve from that?

Deepak Chaudhary: The CAPEX, we are planning it in two phases. In the 1st phase, the capacity increase would be something like 1.2 million pieces per annum. So, for that, the capital expenditure would be in the region of Rs. 130 crore, and this is including the expenditure that we have already done for acquisition of land, that would be in the region of Rs. 25 crore to 30 crore, and the expected revenues from this expansion in Phase 1 should be in the region of Rs. 300 crore per annum.

Moderator: We will take our next question from the line of Prakash Kapadia from Spark PMS.

Prakash Kapadia: Earlier there were some supply disruptions from China, one of our large competitors was hinting at. So currently what is the scenerio? Have the supply disruptions been okay, is it easy or difficult to import from China, are costs going up? If you could give us some sense?

Vikas Kothari: I can speak in respect of Cera. For Cera, we will find that we have reduced our China imports to a great extent. Most of the items that we were importing earlier from China, we have been able to internalize, and we have started manufacturing those items within our own plant. The total Chinese import now constitutes only 3% of our total revenue and is in the region of Rs. 13 crore only right now. So, for us, it is not making any difference as to what is happening in China. We are mostly producing mostly from our plant or outsourcing from Morbi.

Prakash Kapadia: But in general, costs have gone up, are they the same, is it easy or difficult to import from China? Any trade sense you are getting?

Deepak Chaudhary: Earlier the main problem which had happened was the container rates had gone up to very high levels. They have now normalized. In between there have been a few spikes because of the Red Sea and other disruptions which are happening across the world. But more or less those problems which had occurred in between at that time have now been resolved.

Prakash Kapadia: And you mentioned about real estate delivery being the driver in the medium term. So, typically, post-COVID all of these projects were launched and even now we are seeing real estate buoyancy in terms of sales happening. So, how does one get the trajectory in terms of your sales and the delivery sales or registration data? Because we have primarily focused on tier-2, rier-3 cities, and that's been a large part of our sales and whatever we are reading, sensing about real estate sales has been pretty buoyant, but it's been very metro specific also. So, how do we try and relate that to in terms of our visibility? If you could give us some sense, that would be very helpful.

Deepak Chaudhary: Most of the sales which have been happening in the metro cities have been pre-sales. As our products are installed at the last stage, the impact of that sales which has been happening in the growth buoyancy which we have been seeing in the real estate will start reflecting when the projects start getting completed, they reach the completion stages. So, typically a real estate project would take five years to six years to reach the completion stage. So, we can now anticipate that with post-COVID the projects which have started sometime in 2021 should be getting completed by more or less next financial year '25-'26 and '26-'27. So, the impact should start coming over there. You can see the kind of the break which you are seeing with most of the figures has been reported in respect of metro cities. That is mostly because these figures reported are more in respect of larger builders, but the same buoyancy which is there in metros are also there in Tier-2 and Tier-3 cities, but they are not reported as much. So, the same cycle which we are seeing in metros is happening over there also and over there also, we expect that coming next two years, the delivery should start happening.

Prakash Kapadia: And that would add and lead to confidence to our sales trajectory growth because that's a large part of our business tier-2, tier-3, right, that's the right way to look at it, right?

Deepak Chaudhary: Correct.

Moderator: We will take our next question from the line of Naysar Parikh from Native Capital.

Naysar Parikh: So, my question is that you spoke about sanitaryware, faucetware and why the demands are slightly different. Can you also talk about in similar lines on rural and urban? Earlier there was a slowdown in rural, but recent FMCG commentaries suggest that we could be seeing some uptick in rural, slowdown in urban and things like that. What are you seeing at your end?

Deepak Chaudhary: For us, we have still not started seeing that upstream in the retail in the rural segment. So, our sense would be that it has started happening slightly in the faucetware, but it has not happened in the sanitaryware. But going forward, we are hopeful that even the retail segment in the rural should start picking up, but your question as you said, it started happening in the FMCG. Do we see in the case of sanitaryware and faucet, faucet slightly yes, but sanitaryware still not visible. It should happen in the next H1 and the coming years.

Naysar Parikh: And you mentioned that H2 is slightly looking better. So just based on the outlook on, you know, based on the sales that the real estate sector is seeing the kind of because the real estate obviously doing very well. There is a lag for us which is understandable, but still the lag seems to be rather long because on one side, real estate companies are showing stellar numbers, but we are struggling. So, is it raw materials? Is it competition or is it actually just end demand which is not there?

Deepak Chaudhary: So, as you mentioned yourself, there is a long gestation period for real estate. So, most of the buoyancy which we are seeing right now is in respect of presales. So, we should be seeing that translating into our numbers once we start reaching completion in the next, let's say, 2 to 3 years. So, we have to wait for the baby to come out, we can't rush it.

Naysar Parikh: And what about the competition? Because especially in these kind of environment where we are seeing the demand is low, but a lot of peers who are in tiles and pipes, they are obviously setting up plants for sanitaryware, faucetware, etc. So, the number of players in a small market relatively is obviously increasing drastically. And on the other side, some of the Italian players are also being more aggressive. So, how do you look at competition now in this environment?

Deepak Chaudhary: We are not concerned about the competition because as you mentioned, like most of the other pipe companies, paint companies, etc. have also started with the sanitaryware and faucetware business. But we find that most of them are mostly bulk sourcing from Morbi and trying to sell within a very basic kind of product. So, they are more in lines with the unorganized market. And those are not the markets that we are present, or want to enter. So, as of now we are not concern with these new players which have started coming up. The question would be why they are coming in, because they are as of now looking at the same real estate buoyancy which has been happening. And that is why they want to be present when the sales translation actually starts happening. So, we are already present with a very strong distribution network, with a very strong brand and a very strong promotional kind of spend which we do. So, we do not anticipate that they would be too much of a challenge. Once the upswing happens, we are well-positioned to capture the market.

Naysar Parikh: Do you think the upswing is still one or two years away, right?

Vikas Kothari: Correct.

Moderator: We will take our next question from the line of Vinamra Hirawat from JM Financial.

Vinamra Hirawat: My question was on faucetware and sanitaryware. Firstly, you mentioned that faucetware is getting stronger orders from the B2B side. So any one-time sale in faucetware that pushed up the numbers substantially this quarter? And could I also know the differences in margins between sanitaryware and faucetware?

Deepak Chaudhary: There is no one-time kind of a thing which can push up the sales to such an extent. As I mentioned earlier also that the project demand has been going strong and in faucetware the retail demand had also picked up in this particular quarter. So, it is not on account of pickup, it is not on account of a single large bulk order which we have received. In respect of the margin, we find that there is a difference at the gross margin levels between the sanitaryware and faucet, mainly an account of the high input cost in case of faucetware, which is brass. But this margin is kind of made up in terms of the distribution logistic cost. Sanitaryware being kind of bulky item, the distribution costs is much higher, the logistic costs are much higher. In case of faucetware that is lower, which kind of offsets the difference in the gross margins, so that at the EBITDA level, we are able to get the same margins more or less for both sanitaryware as well as faucet.

Vinamra Hirawat: And secondly, your interest cost as a percentage of debt has been increasing substantially for the past couple of years. Any color on this as to why the percentage is going up?

Deepak Chaudhary: The interest cost has not really gone up, the interest cost in the sense that the interest on our borrowings…

Vinamra Hirawat: Yes, interest as a percentage of your debt.

Deepak Chaudhary: I got your question. I am just coming to that. It has not gone up. Why that interest finance cost has gone up, when you are looking at the profit and loss account is on account of the fact that we make our accounts based on IndAS and as per IndAS whenever we do a long-term arrangement in respect of rentals which we have been doing for our various showrooms that we have open and also mostly for our new warehouse that we have taken up, which became operational in Q2, so once it became operational, it's a long-term arrangement of 9 to 10 years wherein the future rental payments are capitalized and then you need to provide for depreciation and interest on that. So, what happens is the rentals don't come into the profit and loss account. Instead of that, the rentals go away, and you have depreciation and interest coming in instead of the rentals. So, that is why because of this reason you will find both depreciation as well as the interest has gone up by roughly Rs. 60, 60 lakhs on account of this reason alone.

Deepak Chaudhary: So, it is kind of notional. It is coming as a rental under normal accounting, but instead of rental, it is coming as interest and your depreciation. Our total drawing CC limit is something like Rs. 100 crore, whereas we normally draw only to the extent of Rs. 15 to 20 crore. The data has remained static in the last few quarters. That has not changed.

Vinamra Hirawat: And this is also in the case 2-3 years ago, like whenever you opened showrooms, warehouses, it was capitalized, and it was recorded in the finance cost. That is what you guys used to do 2-3 years ago as well?

Deepak Chaudhary: Correct. See, we are a cash-rich Company. We are having a huge amount of cash balances in our balance sheet. So, there is no reason why we would be taking up debt. So, interest, if it goes up, can only be on account of actual debt which has been taken, which has not happened in our case. Only interest cost which you are seeing, which is going up, is on account of the IndAS effect only.

Moderator: We will take our next question from the line of Utkarsh Nopany from BOB Capital.

Utkarsh Nopany: My first question is regarding your revenue growth guidance, which you have given earlier. So, our revenue growth has been flat in the first half of FY25. So, are we looking to grow our revenue in mid-teens in the second half of FY25 to clock high single-digit growth for this fiscal year?

Deepak Chaudhary: That is correct. Like, as I mentioned earlier, we should be ending the current year with higher single-digit growth.

Utkarsh Nopany: And, on the APM gas, I just wanted to know, will there be any impact to us due to the change in APM gas allocation policy by the Government?

Vikas Kothari: I think as far as our arrangement is concerned, since we are having a mix of both GAIL and Sabarmati, so the impact Sabarmati is having the gas prices, which are more market driven, whereas from GAIL, we are getting at the subsidized rate. So, in our case, specifically in the case of Cera, we do not see any sort of major impact. And secondly, the important thing is the drawals, which we are making from the subsidized source that is GAIL, that has also increased. It is ranging between 75% to 78%, we draw from GAIL. So, that is making us more favorable in terms of gas prices.

Deepak Chaudhary: Gas that comes from GAIL is from localized well. So, that is an exclusive arrangement that the GAIL is having with the few companies within the particular Mehsana area. So, any other change which is happening will not affect our drawals from GAIL. That can only be supplied to these localized companies which are already having that supply.

Utkarsh Nopany: So, just wanted to know the share of GAIL gas is likely to remain stable at around, say, 75% to 78% going forward for us?

Vikas Kothari: This is more of a stable pattern because what we see over the last, I would say, 1.5 years, we are drawing the similar quantum of gas from GAIL. So, we do not see any major challenge in terms of drawing, reaching out to the maximization of gas from GAIL.

Utkarsh Nopany: If you can just give some sense, what is your ad spend budget for the second half of FY25? And if you can also provide your sales breakup by region wise into North, South, East, West and center?

Vikas Kothari: So as far as spends are concerned, so despite of all these challenging headwinds which are there in terms of market conditions and all, considering the publicity spends being the long-term measure, what we want to continue and what we want to showcase in terms of our different products and especially now working on the luxury segment also, so we have not compromised with respect to our publicity spends. So, publicity spends for the quarter ended 30th September 24, it was around Rs. 15.5 crore versus previous corresponding quarter around Rs. 14.9 crore. So, that is there. And what's your second question?

Utkarsh Nopany: What is the sales break up by region wise into North, South, East, West and Central?

Vikas Kothari: So, as far as the breakup is concerned for Q2, North it was around 33%, then West, it was 21%, South leading by 36% and East 9%.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I now hand the conference over to the Management Team for closing comments. Over to you, sir.

Vikas Kothari: Thank you everyone for attending this call and for showing interest in CERA Sanitaryware Limited. Should you need any further clarification or would like to know more about the Company, please feel free to reach out to me or CDR India. Thank you once again for taking time to join the call. Thank you.

Moderator: Thank you, sir. On behalf of CERA Sanitaryware Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.
