OBL:HO:SEC:00: New Delhi : 12.08.2024

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Mumbai - 400 001

Stock Code - 530365

National Stock Exchange of India Ltd.
Exchange Plaza,
Plot No. C/1, G Block,
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Stock Code: ORIENTBELL

Sub: Transcript of Post Earnings Call for Q1 FY25 held on 06th August, 2024

Dear Sir/Madam,

Pursuant to Regulation 30 read with Para A of Part A of Schedule III of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, please find enclosed transcript of Earnings Call held on 06th August, 2024 post announcement of unaudited financial results of the Company for the quarter ended June 30, 2024.

The transcript of the Post Earnings Call Q1 FY25 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.

Kindly take the same on record.

Yours faithfully,
For Orient Bell Limited

YOGESH MENDIRATTA
Digitally signed by YOGESH MENDIRATTA
Date: 2024.08.12 18:55:12 +05'30'

Yogesh Mendiratta
Company Secretary & Head - Legal
Encl.: as above

"Orient Bell Limited

Q1 FY '25 Earnings Conference Call"

August 06, 2024

MANAGEMENT	**:**	**MR. ADITYA GUPTA – CEO – ORIENT BELL LIMITED** **MR. HIMANSHU JINDAL – CFO – ORIENT BELL LIMITED**
MODERATOR	**:**	**MS. POOJA SHARMA - STELLAR IR ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to the Orient Bell Limited Q1 FY25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during this conference call, please signal an operator by pressing star and then zero on your touchtone phone.

Please note that this conference is being recorded. We have with us today on the call from the management from Orient Bell Limited, Mr. Aditya Gupta, Chief Executive Officer and Mr. Himanshu Jindal, Chief Financial Officer along with Stellar IR Advisors. The management will be sharing key updates and financial highlights for the quarter ended June 30, 2024, which will be followed by a question-and-answer session.

Please note that some of the statements made in today's discussion may be forward looking in the nature and may involve risk and uncertainties. Orient Bell Limited will not be in any way responsible for any actions taken based on such statement and undertakes no obligation to publicly update this forward-looking statement. Documents relating to the company's financial performance are available on the website of the stock exchanges and the company 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: Thank you. Good afternoon ladies and gentlemen and welcome to our quarter 1 FY25 Earnings Call. This has been a slow quarter with a postponement of exports, coupled with sluggish domestic demand.

This has put top-line pressure on all players resulting in a price cut to shore up volumes. OBL has adopted a two-pronged strategy, increasing discounts to stay competitive and aggressively pushing our GVT portfolio. The net outcome of this strategy has been a 4% growth in volumes while maintaining ASP which was just down 1% versus Q1 of last year and 3% up versus Q4 FY24.

The progress made on cost saving initiatives has helped to maintain our gross margins in spite of passing on higher trade discounts. A big win for us has been maintaining a smart fuel mix combination at our manufacturing plants coupled with rate negotiations and consumption efficiency. On the company's performance for the quarter ended 30th June 2024, OBL has registered net sales of INR147.2 crores as against INR143.2 crores in June 2023, a rise of 2.8% and a volume gain of 3.5% over last year.

As mentioned earlier, the company has been investing in building brand OBL since the launch of our maiden TV campaign in December 2023. Our investment on news channels in Q1 has delivered high viewership during the Lok Sabha election and helped drive awareness. This 360-degree approach of new products plus sales push plus advertising has driven our vitrified tile salience to 56% versus 46% of last year Q1.

Within vitrified tiles, the gains have been made in GVT where we have grown by 54% over last year Q1. Our marketing spends continue as part of our previously committed strategy. However, there is still a lot of work to be done here considering the media spends by the top players.

We are committed to see this strategy through and continue on our path of making tile buying and selling easier. 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. On the revenue front quick positives, as Aditya shared already volumes had grown over the last year. More importantly the Dora GVT plant addition mid of last year helped us grow the salience of GVT by 11% Y-o-Y. Thus, despite the price erosion with more discounts coming into play in Q1, this improved product mix in a way arrested the overall ASP decline supporting margins. On the cost front too, we had a better performance in Q1 versus the last year largely on account of two reasons.

One, there was very clearly a tighter focus control on consumption KPIs. So, our cost of production was roughly 7% lower versus last year on a like-to-like basis, which is at constant product mix and energy cost. A few and more efficient lines, especially at Dora, also helped.

The second reason very clearly again was inflation cooling off finally reducing the cost of purchase of raw materials and fuel. Thus, driven by improved product mix and lower costs, our gross margins expanded by roughly 1% on a Y-o-Y basis, while the EBITDA too improved by roughly 2% versus last year. Again, on a like-to-like basis, that is without considering the impact of additional spends that we've done to rebuild or build more or create more awareness on brand OBL via TVC.

As we reiterated on our last two calls, we continue with our agenda of more investments on building brand OBL. Quarter 1, the spends being 4.2% of revenues versus 3.3% last year. With the higher like-to-like EBITDA at 4.7%, the PAT loss was largely due to two reasons again. One is higher spends on TVC, as I mentioned. The other is more depreciation and finance costs coming into play post-capitalization of the new line at Dora. On the balance sheet side, we stay comfortable with net debt at INR41 crores, largely money borrowed to fund the new line, the Dora GVT line.

Repayments against this will commence only after one year, so we have a lot of time available in terms of the moratorium that is available from the bank side. Our working capital requirements did increase mildly to support ongoing sales initiatives. Additionally, as you all know, we have entered into a solar PPA of 7 megawatt of the Sunsure Solarpark Sixteen Private Limited for our requirements at Sikandrabad.

Happy to share that the power flow commenced on the 19th of June. This should help us save more money going forward for our biggest manufacturing facility in North. With this, I would request the moderator to open the line for Q&A. Thank you.

Moderator: Thank you very much. The first question is from the line of Miraj from Arihant Capital. Please go ahead.

Miraj: Hi, good evening. Thank you for the opportunity, sir. Just a few questions. Starting first with the business highlight, if I wanted to understand that we've also recently started a subsidiary in which we are going to do some trading. We are going to do exports mainly of trading products only. So, if you could just share the highlight. I believe you in the opening remarks, sir, did say that the exports have been a bit weak. So, how are things shaping up now?

Himanshu Jindal: Hey, Miraj. So, you know what happened year on year for many years on exports growing at 20% CAGR. Last year was no exception. In fact, you know, exports being much more despite the challenges in the Red Sea, especially in Quarter 3, Quarter 4. Right now, as I know, whatever little I've seen, April/ May numbers are already there in the public domain. Little softer than what it was last year, but I think it's more value erosion, not volume erosion.

June figures we don't know, but what we know for sure, ocean freights have gone up. They've kind of exploded 4X, 5X. You know, I assume this is more of a temporary challenge. Things will get sorted, right? More importantly, the export market is very different than the domestic play. You need different products to cater to the export market.

The intent of opening the wholly owned subsidiary was only to be able to cater to things that we were not, or markets that we were not catering to earlier. You rightly said exports. You know that we already have a facility at Dora, which does GVT, from where we can export now.

Otherwise, in the past, we only had landlocked situations or plans. And more importantly, we had only ceramics. Very close to the coast of our own. So we've done that with that intent that, yes, we need to trade more. We can sell from Dora now. More importantly, again, Proton, which is the JV that we have in Morbi.

I explained in the last call. You know, they have put in investments. They have 5 or 6 million square meters of additional GVT now available. The trials are going on. So that additional piece will also be available for OBL to sell in the markets in case we want to. So knowing that there are opportunities, I think we created this vehicle only to be able to do more volume-based trades in the export market.

Miraj: Understood. So just a clarification on this part, the Proton facility, that was my next question actually. That will be used for exports or domestic or is that a mix of both? The new capacity that is going to come in?

Himanshu Jindal: We need to test waters. Very early to say anything. But yes, the intent is largely exports.

Miraj: Understood. Okay. Sir, next is if you could just guide me, how is the fuel cost been this quarter and what is the average cost if you could guide me for that?

Himanshu Jindal: Pretty flat sequentially, to be honest. Whatever little joy we are getting is on account of like I said consumption KPIs. More importantly, yes, we have made certain switches in terms of the fuel that we use. So we are trying to take as cheap as possible to be able to run our kilns more profitably. So on an average, our gas cost would have been between 40-45 across locations. If I count my blessings on AFR, etcetera, biofuels, etcetera, that we use in our spray dryers, you can say INR6-INR7 rupees cheaper there as well.

Miraj: I didn't understand the last part. Could you please come again?

Himanshu Jindal: So, in our spray dryer operations, we do use alternative fuels. Something that we have been using in our FBCC, right? So that's always cheaper than the gas that you consume in your kilns. The mix of it, the blend is what I meant, on energy has gone down. If I count that in, it would be cheaper by INR5, INR6, INR7.

Miraj: Understood. Okay. Got that part. And sir, our ASPs that I'm looking at, our ASPs have actually gone up year-on-year and quarter-on-quarter as well - no, sorry, year-on-year, our own has come down a bit, but quarter-on-quarter, our ASPs have gone up. So what is the differential in discounts that we've given? Have our discounts increased a lot by significant or how has that been?

Himanshu Jindal: ASPs are a mix of multiple variables. So one is pricing, then there is discounts, then there is a third layer called product mix, right? So what Aditya mentioned already, I also mentioned there have been price erosions very clearly one way or another. You change the list price, you change discounts, you change additional discounts, you give more excursions out, whichever way, yes, you incentivize people to sell. Discounts have gone up very clearly. And our discounts are not too different versus what others are doing in the market today. Yes, there is a very clear beneficial impact coming in from the higher GVT that we have sold in this market this time in this quarter. Like I said, GVT is up 11%, having a positive impact overall on ASPs and the contribution margins.

Miraj: Okay. But I just wanted to understand that the discounts that we give out, if I'm not wrong, we would be putting that in our other expenses or we would be deducting it from sales directly. Even if I look at year-on-year or quarter-on-quarter, contribution margins have gone up. So is the main contributing factor over here just the fuel cost, which remains stable or am I still not able to understand that point, sir?

Aditya Gupta: So, Miraj, it's not one factor. It's a contribution of these two, three factors, which we talked about. On the ASP thing, as I said, we have a very conscious strategy that while we will stay competitive in the market and do what needs to be done on discounting. However, we are also going to be able to do it intelligently.

And secondly, we had decided to push very aggressively on GVT. That's why our GVT volumes have gone up by 54% in quarter 1 versus last year's quarter 1. And so whatever price erosion, ASP erosion, which has happened because of discount, we do net off these discounts from our top line, has been compensated by the increased mix of GVT. So that's one.

The second part of the question was on contribution margins. So contribution margins, we've always maintained one of the best contribution margins in the industry, close to 35%. And the reason why that kind of stays -- we stay good at it because while we have been passing on these discounts, we have done a lot of work at the back end to ensure that we get some good savings from our manufacturing plants.

Moderator: The next question is from the line of Rohit from Samatva Investments. Please go ahead.

Rohit: Good evening, sir. Thank you for the opportunity. Sir, my first question is on the industry per se. What is the demand right now overall in the industry? Because Kajaria in their latest call said that things are looking good on ground for the entire year going ahead. I just wanted your outlook on the same.

Aditya Gupta: Sorry, I didn't get your name, please. Can you just repeat?

Rohit: Rohit.

Aditya Gupta: Hi, Rohit. Good evening. So, Rohit, as I said, I think April and May were bad. And since then, we feel that the demand is kind of coming back. The first quarter, there was a lot of postponement also because of the elections and everything. A lot of people would have kind of gone back to their native villages and all for voting and stuff like that. So I think for multiple reasons, quarter 1 was not as good as what we had hoped it to be. But definitely, I see the demand coming back.

And we are also seeing some capacity in Morbi kind of getting, some of the plants getting closed. We expect in the month of August, Janmashtami and all, some plants in Morbi are going to take – they will be shut for a week in Janmashtami, but we expect a number of them to kind of take a longer shut down for maintenance and because of low demand and all. So I think quarter 2, we expect it to be -- from the demand side, to be better than what quarter 1 has been.

Rohit: Got it. My second question is, I just wanted some clarity. So these export-oriented facilities in Morbi, so these guys don't supply to the Indian market, right? They'll be purely for exports. And since exports are not doing well, will these guys be dumping into the domestic market, or will they take a shutdown? Just wanted to understand that part.

Aditya Gupta: So, Rohit, none of these units are export-oriented units, which have an obligation of supplying only to the export market. So there are no such units in the industry. So this is very much the choice of that vendor, how much he supplies in exports versus India. We have seen that capacities do get diverted to the domestic market.

A lot of one-time sales happen because of export consignments or products stuck up, not able to sell them off. So they do a one-time sale at a very low cost. That's kind of a model in the domestic market. So it keeps happening. There's nobody -- there's hardly anybody who is totally into exports. Morbi has, they maintain a good mix of exports and domestic markets.

Rohit: Got it, understood. So just one last question was on what will be the fuel cost for this quarter in absolute numbers? I missed that number.

Himanshu Jindal: The blended gas cost across locations would have been between 40-45. You can say 43 types. And if you're asking me energy or fuel in total, we do use biofuels. We do use alternate fuels in our spray dryer operations. If I count that in, you can say roughly INR6 or INR7 saving there.

Rohit: So what will be the mix of biofuel that we're using right now?

Himanshu Jindal: So we use multiple fuels, whichever is more economical. Whether it's in Sikandarabad or in Dora. Hoskote, we have a dry process plant so there is no spray dryer operation there. You can say net-net INR38 rupees, INR36, INR37, INR38 in that range is what we spend on fuel altogether.

Moderator: The next question is from the line of Gunit Singh from Counter Cyclical PMS. Please go ahead.

Gunit Singh: Hi, sir. So I just want to point out that one of our competitors, Somany, their revenues have grown at about 10% CAGR since FY '22. And they've maintained 10% operating margins, whereas our operating margins have fallen from about 9% to 3% currently.

And their revenues have remained flat since FY '22. So, I just want to understand, despite of taking all the initiatives that you mentioned, energy efficiency and whatnot, our margins are still at 3%. And in spite of that, we are, again, even though the business is not doing very well in terms of margins, we are planning to spend more on marketing and advertisement.

So, I just want to understand the, I mean, overall plan of where you want to take the company in the coming two to three years. And, I mean, would we continue this marketing spend considering the kind of margins that we are generating? And by when should we expect solution of the marketing initiatives that we're taking? Number one. And also, I mean, by when do we expect to, I mean, move out of this INR650 crores, INR700 crores, the revenues that we have been seeing over the last three years? Okay.

Aditya Gupta: Thanks. Okay. If you have been attending, going back to the results that you have clearly been checking. We have historically been very heavily loaded in favour of ceramics. All our manufacturing plants, I mean, the first GVT manufacturing new plant came up in 2018. And we were largely a ceramic player historically. Even today, the bulk of our capacity in our own units is more ceramic than GVT, which is totally out of line with what the industry has done.

The industry moved into GVT a lot sooner than we did. And we continued selling ceramics, which is not growing as fast as GVT has been growing. So that is kind of different. So if you see, I did mention that, for example, GVT had grown by 55%, but the loss on ceramics, the ceramic overhang has been so high with us that that has been negating all the gains that we have made on GVT. The second point which I want to share with you is, you know, our regional composition. We have been historically more into projects and more into north and east markets and very low salience on south and west.

And in all the building and construction categories, south, especially south, has grown much faster in the recent five, six years compared to north and east. And having a very small market share in south has kind of impacted our overall revenues. On our margin guidance, you know, we don't give a margin guidance going forward, but as I said earlier, we had a bad last year where, you know, we were, I think, three out of four quarters, we were negative on volumes and top line.

Fourth quarter of last year was when we kind of did better. We put up a growth. Again, in quarter one, we have put up a growth, a small growth and all. And looking forward, we see the markets improving. We see some traction happening. We now have, for the last few quarters, the GVT line in Dora, which has been made for the south market. So we expect things to keep on getting better with every passing quarter. Thank you.

Gunit Singh: And in terms of the marketing spend, I mean, when do we expect to, I mean, what sort of traction are we getting with regards to the marketing campaigns that we're doing? And what kind of gains do we need to target because of these spends?

Aditya Gupta: So, we just completed our annual brand awareness campaign, which we take a sample across some 10, 11 cities nationally, all over the country. So it has shown that our marketing campaign started in December 23, and this field work was done in March and April of 24. So it shows that there has been a 50% increase in our brand awareness. We still have a long way to go. So we are seeing good initial results of this campaign in terms of brand awareness.

Another parameter which we tracked very closely is the website traffic, which since the campaign has broken has grown substantially. So between these two things, we feel that the campaign is working for us. As I mentioned earlier, our ability to kind of maintain our ASPs and to grow so aggressively on GVT, which is a very competitive market, is to some extent helped by the brand expenses and the awareness going up.

Himanshu Jindal: You know, I'll try and add, Gunit, see, you know, whenever the times are good, people end up spending more on capex, right? So this industry also in that way put up a lot of capacity over the last two, three years between branded and unbranded. And Orient Bell also invests heavily into building up more and more capex, especially GVT, which is what consumers want. Most of these investments have come up at a time when the markets, unfortunately, have slowed down. There have been price drops. There have been other things which are, in a way, directly and indirectly impacting consumption.

Now, on top of it, the intent is that, you know, we do more branding, something that we didn't do earlier. We were doing, but we were doing more digital spends. We were not doing mass media. So we've supported the digital spends now via mass media to create more and more awareness. As the markets improve, I'm sure this is going to help. I've been looking at allied industries, you know, in terms of what they are doing, what have they done in this quarter, how are things changing.

And I'm seeing very clearly some signs, initial signs, and you know the markets better. You know, you're seeing good traction coming in, some products which are used in finishing now, right? So if the finishing products, per se, are growing, you know, there is a very strong chance for tiles which come at the far end of construction to do well in the coming quarters.

So we are hoping for that and to be able to do more and more on retail, which has not been a great strength at OBL in the past. We were more projects. I think this will help. And this is why, with that belief, we are continuing to pour in money there. Does it help, Gunit?

Moderator: Thank you. The next question is from the line of Miraj from Arihant Capital. Please go ahead.

Miraj: Thank you for the opportunity again, sir. So in the previous quarter, we had seen that the channel partners were not stocking up inventory. How has that thing been now, given that it's the monsoon season? And how has demand moved in the current month, August as well? July and August?

Himanshu Jindal: Give us a minute. You said how is demand coming out in July and August, Miraj? Is this the question?

Miraj: That as well as how are things shaping up in the channel inventory with the channel partners? Because in the last quarter, the sequential quarter, they were not stocking up inventory. So I want to understand if they've started stocking up or how are things at that point?

Aditya Gupta: So, Miraj, you are absolutely right. There was, as prices kind of went south, the channel partners were delaying purchases and they kind of down stocking, which did happen in quarter one. There has been two small increases in gas prices in Morbi over the last few months. So to that extent, a capability of Morbi to kind of drop prices is less because A, the steep drop, which has already happened, and B, the gas cost is slightly higher than what it was in April or May.

So I see that, plus I did mention that August will see some shutdowns because of the Janmashtami and everything. So overall, we see that, we feel that the demand is improving. And kind of optimistic, cautiously optimistic, that the channel partner is going to now start stocking up again in anticipation of the demand and the season is approaching.

Himanshu Jindal: Again, I'll just add to Aditya. You see, Morbi, what we are picking up, and I'll get to know more once I'm there on this Sunday, but what I'm picking up very clearly from vendors, a lot of these guys are shutting down again, especially GVT lines, especially slabs, wherever the utilizations are low, knowing that on the export side, the ocean freights have gone up much more. So I'm sure with that happening as well, supplies getting curtailed, the situation should improve.

Miraj: Understood. But sir when we say that there are units in Morbi shutting down is this related to the lack of demand or is this because they want to take the maintain and shut down and the rates are going up?

Himanshu Jindal: No if you see last four years of data, four years of actual what happened they have shut down two times in the past, last year they did not. They didn't take an active shutdown. This year they are again taking a shutdown. So I think lack of demand, lack of being able to evacuate material to export markets etc all of that is contributing. They know the price erosion as well. They are the ones who actually move the markets one way or another.

So I'm sure they are taking a very conscious call knowing where the situation is. Janmashtami is the right time to do so. They take holidays. So it gets combined with maintenance etc. So all of that works together. One way or another way like I said supplies curtail is good in an environment like this today.

Miraj: Understood. Sir our next thing is regarding our project sales I believe they stood at roughly 25% for FY24. So how are the things looking now in project versus retail sales? If I'm not wrong you just mentioned that you are focusing more on retail sales now to answer the previous participant's question. So how is the order book looking on project sales?

Aditya Gupta: So we did 20 in quarter 1. Just hold on. Miraj, just hold on. Miraj we have to get back to this. I was just looking at the data. I can't find it. We will get back to you. We will pass on this information to Stellar and they can just feed it to you.

Miraj: No worries. And sir just one clarification Proton is adding 5.5 million square meter or 5 million square meter?

Himanshu Jindal: Yes 5.5.

Miraj: Okay understood. And so if I exclude the new capacity that Proton is adding, so this is in GVT the 5.5 million square meter that they're adding is in GVT. If I exclude that, just looking at our current GVT contribution which is close to 38% is it fair to assume that this is our best level of contribution from GVT from existing facilities?

Aditya Gupta: No, we can do more. Once this Dora GVT came online last year, last financial year we have capacity to grow this, and we are also trying various initiatives in our Sikandrabad plant to get more than the stated capacity out of that line. So definitely there is even without considering Proton from our own manufacturing, there is substantial capacity that we have built up over the last few years to take GVT up.

Miraj: Okay because I think the last time we spoke in the previous call I was under the assumption that 40% is the total capacity that we have of GVT out of the total capacity. So that's not right. That's not correct, right?

Aditya Gupta: No, you're right.

Himanshu Jindal: See Miraj you're right. We had a vitrified capacity of 40%. Obviously, Proton is adding more capacity, but what we are missing is trading. From trading, I can buy and sell whatever I want to. So that's an exponential market tap which can continue to flow and I can take whatever I need to. So my aspiration very clearly is that yes we should do more and more GVT. This is what is demanded by the market. This is where the cream is. We all are aligned, our sales are, Aditya and me all of us are aligned.

Miraj: Understood, perfect. And, sir on the Dora facility in Q4 when we spoke the facility was still ramping up. So what kind of utilizations are we seeing? I mean, are they up to our expectations right now or is there still improvement pending in that facility?

Himanshu Jindal: No, it is not up to our expectation. Obviously, there's a lot of work to be done when we are doing that. So let's hold on to that question for some time maybe in the next two or three quarters I should be able to give you all numbers properly, but right now there is a huge delta that I need to do out of Dora specifically also. Very clear.

Miraj: And just looking at the current capacity that we have right now, only one facility that is coming up is in the associate entity where we are actually not putting in any money. So for us there won't be any capex for this year?

Himanshu Jindal: See unless I want to do something material maybe a Greenfield, for example, maybe an M&A, for example, maybe a Brownfield at the later end of the year. These are questions or these are things that we keep discussing because like I said our aspiration is to give what the customer wants. Today my balance sheet is still pretty decent.

Yes, I can borrow more. So we'll have to decide at the right time as to what we want to do more. Accordingly, we'll come back once we frame our mind, once we all agree we align. Once it gets formalized we come back to you and tell you transparently.

Miraj: Understood. But sir as of now as on date there is no capex planned as of date?

Himanshu Jindal: Nothing on the table right now.

Miraj: Okay. Understood. Yes, just one last question. You mentioned that on the Sikandrabad unit, you put solar power plant which will help us a lot in cost saving it started on 19th June. Is that the only unit with the solar power plant or are other units already equipped?

Himanshu Jindal: Hoskote was always with the solar PPA, but the savings there are now less. This is more captive where I have put in investments. In the other case it's more like a contract where I don't do any investments, and I get the cream. So that's been there in existence for long. Dora we are still seeing what we need to do.

Miraj: Okay, understood. That's it from my side. I'll just get back in the queue if I have any more questions. All the best for the future, sir.

Himanshu Jindal: Thank you so much, Miraj.

Moderator: Thank you. The next question is from the line of Ashwin Reddy from Samatva Investments. Please go ahead.

Ashwin Reddy: Yes, hi. Good evening sir. Thank you for the opportunity. Sir firstly could you talk about the current revenue split between North, East, West, and South and what was the number say three years back and how has that changed?

Himanshu Jindal: Ashwin you see at this point in time for us to be able to get that detail out is a little difficult. We are holding that data back for certain reasons at our end maybe in the next few quarters we'll be comfortable sharing then we'll share.

Ashwin Reddy: Okay, got it. Okay so moving on. So regarding the OTBs what we've been put I mean because that's been increasing the contribution has been increasing and all. So I mean firstly I wanted to check what has been the feedback from our OTB franchisees/ dealers from us and what are the key focus areas say within OTBs for the next two, three years? So what has been I'm sure when it started till now something would have changed and then the feedback would have come in. So what is it that we can do better in the OTBs? What is the feedback? What is the general mood like on the OBT front?

Aditya Gupta: So the overall feedback is in - the feedback is good it's positive because it ties in nicely with our strategy to premiumize. I spoke about GVT going up and all and these are all display products. These are end consumer products. The architect comes and takes a look at them. The consumer takes a look at it with their family.

So you need a very good display and the OBTs are now seeing, the dealers are seeing a lot of support from the company coming in with new products, with new sizes, with new designs. We have launched a touch and feel new series from SKD, Sikandrabad in April. We have replicated that launch in Dora in the month of July. So a large number of new products, new surfaces, new sizes are being now made available to the OBTB to help their sales. The percentage of OBTBs to our overall sales of the company has been growing.

So that's another indication. The third thing which our OBTBs are really loving is the tools that we are providing to them which is in terms of our visualization tools, Quick Look and Trialook and all which is something unique that they have and it's helping them convert to more and more consumers. So overall positive. We did 19 new OBTBs, Oriental Tile Boutiques in quarter 1. We expect to do better in quarter two. We have a robust pipeline for this, so positive about this. And overall, very important part of our strategy because as Himanshu also said, we are thinking more and more to sell premium products, and these premium products need displays. That's where OBT kind of fits in very nicely with our overall initiatives.

Ashwin Reddy: Got it. So then is it safe to say that there are certain products in the portfolio plus the tools which are available only to the OBTs and not to the channel? Is that also there?

Aditya Gupta: Yes, that's the fairest thing. Tools, I would say close to 100%. They are with OBTBs and not with others. Even on products, for example, if I'm selling a 4 feet by 6 feet tile, somebody who does not have the capability to display that tile just cannot sell it, just cannot do a secondary. So the kind of products that we are increasingly getting into more GVT, more larger sizes and all. It is a prerequisite to have a display, so it kind of just falls together.

Ashwin Reddy: Got it. So then the margins in the OBT, in the OBTB are higher than the normal margins at the gross level. What would be the gross margins for you within the OBTB versus the margins? It may not be the exact numbers, but the differential is what I'm looking at the difference between the OBTB margins and normal margins.

Aditya Gupta: I think a percent, a dealer who has got a good display and a good display and is focused on more on detail sales would be getting, I would say almost close to 10% better margins than somebody who is not into displays or is totally getting into projects, slow contractor kind of customer segment.

Ashwin Reddy: But at your level, what is the margin difference for you?

Aditya Gupta: For us, for Orient Bell? So we see at the product level the margins are similar. We have not calculated it separately for OBTBs. We do calculate margins at the product level but not at the OBTB or contractor level.

Ashwin Reddy: What I mean is, for example there is a dealer who is an auto franchisee for you who is an OBTB. So the margins that you make in the product that you sell through an OBTB versus a normal channel, what is the margin difference that you have? That's what I'm trying to understand.

Aditya Gupta: There won't be any difference. It would be similar. It would not depend on the OBTB. So it would not depend on the OBTB. We do give some extra support in terms of, like I told you, tools. We give them some extra support in terms of events and stuff like that.

Ashwin Reddy: No, but see... The point I'm trying to understand is so because we are spending the extra resources and effort, so if it is not resulting in the extra margin then what is the rationale? That's what I'm trying to understand. Or is it like higher sales? Or is it like more secured sales? Or what is the reason for doing this if you don't get higher margins from OBTBs?

Aditya Gupta: I don't understand. Why don't we get higher margins from OBTBs? Is that the question?

Ashwin Reddy: Yes. Basically, if we are putting in higher effort, higher resources into OBTBs, which I'm sure, where higher costs are involved then what is the rationale for the OBTBs? Is it the more secured sales? Or get a working capital for us? Or what is the reason for us to have OBTBs if we're not getting better margins through these?

Aditya Gupta: The market is demanding... The market wants to look at the product before buying it. And if you don't have a place to showcase your product then how will you sell? So it is not about...

Ashwin Reddy: It's more like a branding. The showcasing is where it is playing a role.

Aditya Gupta: It's a customer demand. The customer wants to see the product touch it, feel it, visually see it before she decides which tile to buy. And with so many new sizes and so many new finishes and all the customer is spoilt for choice. You need space to be able to display your whole range across sizes and finishes and designs and whatnot. The choice would be either you sell a totally undifferentiated very utility kind of a product, a very small size, you only focus on that. Then you don't need displays.

Ashwin Reddy: Right. Again, I'm just trying to understand the margin defence because of the OBTB. That's just one. And then second thing, so right now, what proportion of our sales, say through OBTBs or outside channels, would be driven by the architect versus the retail customer buying directly? How is that mixed in? Because I understand maybe the architect-driven pace is going up. But where is the current ratio in the industry? And specifically for you, what is the role of architect? I'm trying to understand more.

Aditya Gupta: So we do about slightly less than 50% from OBTBs the total sales at OBL. Regarding architects and all I'm yet to see any authentic figures. I don't know of any tile company which is actually actively tracking what is the sales from architects simply because in the tile business it's a very primary-led business and once stock lands at the dealer's point, how he sells it, when he sells it, to whom he sells it is not something which the company, manufacturing company has a visibility on. So I wouldn't be able to share any numbers with you. If you have any numbers for any other players and all, we would love to understand that better.

Ashwin Reddy: Got it. And my last question is on the balance sheet side because in the past, we had a slightly more levered balance sheet and then we became completely debt-free and now we have a small debt. So up to what kind of leverage on the balance sheet is okay with you? Because there is some room, I believe but what is your thought process on the right amount of debt that you want to take and what is the maximum debt you don't mind taking?

Himanshu Jindal: See, there is no limit to maximum, there is no limit to minimum. It all depends on how much you can generate in terms of cash flows. So if your underlying business is strong, fundamentally strong, producing loads of cash flow, you can have more and more on your balance sheet also.

40 is nothing. In the past also with less capacity, we were sitting on INR100 crores when I joined the company. So very honestly anything with good business model, anything which sells, which produces cash flow, I'm happy to fund it. And today, OBL, by God's grace is very strong to be able to do so.

Ashwin Reddy: Right. But because I mean, the reason I ask is at some point in the past, I remember you saying that we'll remain net debt free. This is around the COVID time after you repair and all. Now I think it has changed now. So I'm just trying to understand what prompted the change and hence I'm trying to understand the whole background of this.

Himanshu Jindal: I'm sorry, I'm interjecting. We pushed in investments to be able to grow sustainably. Aditya explained we need more GVT. This is what the consumers want. We need more displays. We need a lot more money going out into strategic objectives. And therefore, we did what we did. We produced healthy cash flows. We were debt free. And then we borrowed to be able to build this capacity. So I'm unclear. See, if I see there is a possibility to be able to do more by borrowing I'll do that without a second thought.

Aditya Gupta: So let me answer it another way. I think if I look back that is not a short-term discussion point. If I look back to the last five, six years, we would have paid maybe close to INR100 crores of debt. And we have created additional capacity of about 7 odd million square meters. 7.5 million square meters in the last six years. And 7.5 million square meters capacity would be costing about INR150 odd crores. But the debt we have on books is about INR40 odd crores. So you do the math, and you see...

Ashwin Reddy: I understand. Actually, the point is, I completely I'm with you. I understand that you need you definitely need debt to fund your capital. And when you're growing, why not? I mean, you have to use debt to grow. I'm just trying to understand. I'll invest it from a balance sheet risk point of view. What is the maximum risk?

Aditya Gupta: I'm trying to answer that. I'm trying to answer that if you would listen. The point is, I think the important point as Himanshu said is not the amount of debt. The important question is, what is that debt being raised for? And where is that money going? So I think that is -- And we are very disciplined in that way. We invest the debt that we have. It's always going into very productive assets in building capacity. Yes, the markets have not been as good as what we expected them to be. Yes, it's taking us time to kind of build up the new capacity to get the market going for that. But the debt is going into direction which is a productive asset.

Ashwin Reddy: Correct. Got it. Thank you so much for the question, sir. I'm actually done now. I appreciate all the answers to that. We've been investors for four years now and we wish you all the best. Thank you.

Moderator: Thank you. The next question is from the line of Hena from Dam Capital. Please go ahead.

Hena: This is just one question from my end. It is around demand, basically. So what I was able to conclude from the call is that things are still not improving at this point, even today. And which would make sense that Morbi will be taking planned shutdowns. But I just wanted some flavour from you in terms of, let's say, projects on the private end.

Are we seeing increased inquiries? And if anything on government projects, is that demand? Are we seeing inquiries on that end? If you can just give some flavour on that. And when we expect demand to actually recover, I think in the last call you did say that it would probably be second half of the year or FY '26. So I just wanted some flavour on that?

Aditya Gupta: So Hena, I think the government business has slowed down because of the election cycle and all. Now a new government is in place, and they have new plans and all. So we expect that to get better. There is some news of newer projects being sanctioned and being discussed by the government. But Tile comes in at the penultimate stage of the project execution. So any new project will not have an immediate impact on Tile demand. We do expect a positive push going forward as the demand picks up, including projects.

Hena: Okay. And in terms of private projects, have the inquiries moved up over there just as an initial sign that demand is coming back?

Aditya Gupta: So you're talking about project inquiries or you're talking about...

Hena: Both. So I said government projects and now I'm just asking on the private project side. If we see inquiries involved now, which would convert into demand in the second half of the year.

Aditya Gupta: So we keep bidding for new projects and all. So I'm talking about large residential projects. I'm not talking about the small -- kind of projects and all. So I haven't seen the July numbers on project inquiries and all, but what I'm getting from talking to people is that they are more positive going forward than what quarter 1 was.

Hena: Okay. And also on the retail end, has there been any sort of recovery in demand?

Aditya Gupta: I mentioned that general sentiment is positive. It is better than what it was in Q1, and we expect quarter two from a demand perspective to be better, stronger than Q1.

Hena: Okay. That is all. Thank you so much.

Aditya Gupta: Thank you, Hena.

Moderator: Thank you. The next follow-up question is from the line of Miraj from Arihant Capital. Please go ahead.

Miraj: So I have a question mainly towards the Morbi unit. So in the previous call, you had explained that out of, let's say, roughly 1,000 units, 50% of them were shut. A lot of them are permanently shut and they were operating at very low utilization levels also. And I think smaller units had been shut and nothing new was coming in. In the same context, can you explain if the number of shut units have increased now or the ones that are. Okay. They have shut more, so how many more have shut, sir?

Himanshu Jindal: See, I think if I remember correctly, last time it was 250, 260. The number that I saw for July, I think it was 290 or so. Yes, 40-50 more shutdowns, permanent shutdowns.

Miraj: Okay, and this would be in ceramic only, right?

Himanshu Jindal: Largely ceramic. Ceramic, Largely wall…

Miraj: Ceramic and wall, okay. And, sir, if you could just also let me know the run rate for exports for April, May, June, the average run rate monthly?

Himanshu Jindal: I don't have it, Miraj…

Aditya Gupta: So, Miraj, we are getting estimates of about INR4,000-odd crores for quarter 1.

Miraj: 4,000, okay. Roughly, figures are okay.

Aditya Gupta: So it was a kind of slightly low, because these are just guess estimates. You talk to kind of different people, but the overall sense is that it has been lower than what it was in the first quarter. Not because demand is not there, more because, people are kind of postponing shipments, hoping and waiting for the freight rates to come down. So that is the issue.

Miraj: This would be only Morbi figures, right? INR4,000 crores?

Aditya Gupta: That's what we are hearing, but again, these are kind of very rough estimates. So rather than going by the INR4,000 crores number, I would go more by the sentiment that general feeling consistently across whomsoever, sir, we have spoken to is that the exports this quarter are weaker than what they were in last year first quarter.

Miraj: Understood. Okay. And sir, on the ad spends that we have, the ad that we are running, so that is expected to continue throughout this year as well, right? For throughout FY'25?

Aditya Gupta: Yes, so we are currently on air. The channel strategy, which channels we are advertising on, which markets we are advertising on, that kind of keeps changing. So as I said, we want to consistently invest on that. We are also looking at what is the best way to kind of -- so we continue to spend on marketing. We continue to spend on building brand awareness. The exact mix of how much TV we will do versus how much digital we will do in that particular quarter would change depending on the opportunities that are available at that point of time. But consistently, we will continue to invest in building brand awareness.

Miraj: So this figure would remain close to 4% mark that we have been doing or move towards 3%?

Aditya Gupta: No, I think we would like to maintain it to that 4%-odd number. But let's see. 0.5% plus minus maybe quarter and all would change depending on what kind of properties are available and what are the immediate requirements.

Miraj: And sir, the next question is regarding just circling back to the discount part, if you could just quantify somehow how much discounts have increased compared to quarter-on-quarter or let's say year on year. Just quantify how much in percentage terms how much more discounts are we giving now? Just wanted to understand that.

Aditya Gupta: So I don't have the numbers.

Himanshu Jindal: Let me try and find out. Sequentially, 1%, 1.5% more versus what it was in March quarter.

Miraj: Okay. And so just my final question is that last quarter we spoke about the patented product. So we had, I think, antimicrobial product or tile or antiviral tile that we had received. If you could just explain the contribution, what kind of contribution you are seeing or what kind of performance of these patented tiles you are seeing and if there are any new patents that we've received.

Aditya Gupta: So Miraj, this is a very special tile. We are talking about the antibacterial tile that we had patented the first patent, right? So this is something, this is not a, you're talking about that particular tile, I'm assuming?

Miraj: Yes, the antibacterial tile that we received in Q1. Yes, sir.

Aditya Gupta: So see, this is not a product which is going to sell in the retail market. So this is what we are focusing at towards the institutional market, the healthcare segment. And work is on in terms of, meeting various architects, decision makers, administrators, government officials and all. So that is going to be a slow month. But work is on, there are teams who are working on that to kind of get it specified as a required product. Like everything in government and all, hospitals are largely government and all, it will take time.

Miraj: So this will take some time to, quantify how the performance has been?

Aditya Gupta: It will take time, and it will be a slow month. So it is not going to be, so it is more of having a, we agree to do something which is different, and which is nice, but not something which is going to, like, contribute to, say, this quarter or next quarter's revenue.

Miraj: Understood. And any other new patents that we've been granted, sir?

Aditya Gupta: No, we have been standing on this for a long time, 2 years or 3 years now. No, nothing new.

Miraj: Okay. Yes, all the best for the future, sir. Congratulations.

Aditya Gupta: Thank you, Miraj.

Moderator: Thank you. Ladies and gentlemen, we are taking this as a last question for today's conference call. I would now like to hand the conference over to Mr. Aditya Gupta for closing comments. Please go ahead.

Aditya Gupta: Thank you, everybody. Thanks for being on the earnings call and thanks for calling Orient Bell and Investing in Orient Bell. Look forward to meeting you again next quarter.

Moderator: On behalf of Stellar IR Advisors that concludes this conference, thank you for joining us and you may now disconnect your lines.