



“Cera Sanitaryware Q3 FY2016 Earnings Conference Call”

February 04, 2016



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*Cera Sanitaryware Limited
February 04, 2016*

Moderator: Ladies and gentlemen, good morning and welcome to the CERA Sanitaryware Q3 FY2016 conference call hosted by Asian Market Securities. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Kotak. Thank you and over to you Sir!

Kamlesh Kotak: Thanks Lizan. Good morning everyone. On behalf of Asian market we welcome you to the 3Q FY 2016 earnings conference call of CERA Sanitaryware Limited. We have with us today Mr. Bharat Mody – Strategic Advisor representing the company. I request Mr. Bharat Bhai to take us through an overview of the quarterly results and then we shall begin the Q&A session. Over to you Sir!

Bharat Mody: Thank you Kamlesh Bhai. I welcome every participants who have joined this conference call. A small correction, Mr. Atul Sanghvi has been traveling. He could not join me and I will be the solely handling this conference.

Before I start I would try to read out the disclaimer which is as follows.

"Certain statements in this release concerning our future growth prospects are forward-looking statements within the meaning of applicable securities laws and regulations. These statements involve a number of risks and uncertainties, beyond the control of the Company, that could cause actual results to differ materially from those appearing in such forward-looking statements.

The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition including those factors which may affect our cost advantage, wage increases, our ability to attract and retain highly skilled professionals, political instability, managerial limitations and legal restrictions of acquiring companies outside India, and unauthorized use of our intellectual property and general economic conditions affecting our industry.

CERA Sanitaryware Ltd. may, from time to time, make additional written and oral forward looking statements, including our reports to shareholders. The Company does not undertake to update

any forward-looking statement that may be made from time to time by or on behalf of the company, as a sequel to or in continuation of these statements.

The Company also expects the media to have access to all or parts of this release and the management's commentaries and opinions thereon, based on which the media may wish to

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I would now give an overview of the performance for the quarter ended on December 31. We have been maintaining a growth in sales and profit. CERA has achieved almost about 11.58% growth in the top line and a 24.42% increase in that profit in the third quarter ended on December 31, 2016.

I would straightaway now suggest to come on questions from participants and I will try to answer them to best of our information and knowledge.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Ateek B from Capital Matrix. Please go ahead.

Ateek B: Good morning Sir. Sir just two question from my side. First our EBITDA margin has grown by around 100 BPS which I can see clearly coming from power and fuel so the question was Sir any margin pass on from our supplier of tiles because we have seen many tiles player growing their margin substantially?

Bharat Mody: Basically tiles are one of those segments we are in. More relevantly, we are using power for our captive consumption sizably. We have our own wind mills as alternative source of power generation helping us to control the cost. On a gas front there also has been a sizable reduction. Collectively the entire energy cost has gone down. We have been able to manage outsourcing cost of Tiles with suppliers offering us material considering the reduction in their own Gas cost. Simultaneously there are few other costs, which have got a push upward. We have taken a price rise after a long gap in the last quarter. This in turn has helped us to maintain our margins. As on date we are able to sell at the price that we command. We feel that we are reasonably placed.

Ateek B: Yes, correct so because the almost 100 BPS positive came from power and fuel Y-o-Y, so there is no benefit in raw material margin so there is none of the margins has been passed on because of the crude benefit from tile supplier?

Bharat Mody: In a way yes. The 100BPS positive contribution to margin has come from savings in energy cost. However, the Tiles business accounts for nearly 13-14% The rest of the 87% of business comes from the other segments including sanitary ware and faucet ware. The cost advantage of raw material is very negligible in sanitary ware business as it forms a small portion of cost. As for faucet ware, the brass prices though remained a bit volatile has shown steady with declining undertone

Ateek B: But there is no benefit of crude oil price decrease in our 87%?

Bharat Mody: Definitely it is a benefit to us. I am talking power and fuel is a completely energy cost, which includes power generation as well as the saving that we have been able to garner in falling gas prices.

Ateek B: The last question Sir, any comment on subdued growth is that because of the price rise that we took or just because of the market?

Bharat Mody: Honestly the market is still continues to be subdued. There are no signs of any drastic improvements. We have changed our product mix at the production level as well as at the sales level to help us control cost. We have been able to maintain a reasonable growth of about 12% for the quarter. For the nine months we are almost about 15% plus growth.

Ateek B: Sir can you give segment wise growth breakup?

Bharat Mody: I can give you the breakup of the topline that it is made up of which will be very handy for the purpose of all comparisons that you would be looking forward to. We have purely a business, which is coming from sanitary ware is about 49% for

the nine months, and another 14% business which is coming from the allied products which are a part of the sanitary ware like **PVC** cisterns and seat covers, some of the essential PVC pipe fittings things which go along the sanitary ware making the total carry to about 63%. Another 21% come in from faucets business and we have 13% business coming from tiles and the balance 3% is from the Wellness range of products.

Ateek B: There is no change from last quarter?

Bharat Mody: I think there is a slight change if you really compare ; earlier the pure sanitary ware was about 66% I think it has gone down to 63% and the faucets which was 17% from there we have gone to 21%. Tiles business has more or less remained steady business. Sanitaryware and the allied products have gone down by about 4%, which again we have been compensated with the rise in the business.

Ateek B: Thank you very much.

Moderator: Thank you. The next question is from the line of Sayan Das Sharma from CRISIL Limited. Please go ahead.

Sayan Das Sharma: Thanks for taking my question. First question is on the employee cost side, while your margins have improved as the previous participant mentioned now mainly because of power and fuel cost our employee cost has gone up just a little bit particularly the percentage of sale so any inputs on that Sir around 15%?

Bharat Mody: We have expanded our capacity. We have expanded capacities on faucets ware number one, secondly, we also raised our capacity from 2.7 million to 3 million in the sanitary ware too. Now obviously we need to have increase manpower to use the capacity and therefore the manpower cost has gone up. Not only this, the sales and distribution channel also needs to be strengthened. this is to sell our enhanced production capacity of SW and FW both.. Therefore the overall cost of employees has gone up slightly.

Sayan Das Sharma: My second question Sir, typically if you look Q4 is a better quarter best quarter in the entire year?

Bharat Mody: Generally yes.

Sayan Das Sharma: This year because of nine month growth has been subdued it has still been double digit but a little subdued compared to historical level what is your outlook for the next quarter and FY2017 Sir?

Bharat Mody: We hope to maintain the same growth what we have maintained for the nine months.

Sayan Das Sharma: Thanks.

Moderator: Thank you. The next question is from the line of Nehal Shah from ICICI Securities. Please go ahead.

Nehal Shah: Sir couple of questions, one is can you give us the mix between the manufacturing and outsourcing for the nine months?

Bharat Mody: Yes, for the faucet it is 50:50 and for the sanitaryware we have about 28% is manufacturer, 13% is imports, 7% is the domestic outsourcing and 14% allied product is completely outsourced.

Nehal Shah: The sanitaryware 28% was?

Bharat Mody: Is manufactured in house.

Nehal Shah: 13% was import.

Bharat Mody: 13% is import, 7% is domestic outsourcing and 14% allied product is completely outsourced.

Nehal Shah: So Sir coming back to the gas pricing, which has gone down now has the gas total cost coming down is it because of higher outsourcing or is it because of gas prices falling or is it the combination of both?

Bharat Mody: It is combined effect. However, in-house manufacturing too has benefited on gas cost. We can make it more comparative to and answer would be apparent from that. We have about almost about 40% to 42% capacity that we use on sanitaryware is by administered gas price which used to cost close to around Rs.12.50 plus. This arrangement with GAIL, which is a fairly long term arrangement, is recently renewed in last December 2015 for another three - five years. Now GAIL is charging is about Rs.11.25- 11.50 paisa this means that there is reduction in that part; No2 whenever we are getting from the market rate which used to cost us earlier, about a year before around Rs.40-44, gradually has been coming down due to international fall in crude price. Currently, we are getting this gas at around Rs.30/- Rs.32/- so average if we take it has gone down to about Rs.25 to Rs.27 between the two of them which used to be more than Rs.34 earlier.

Nehal Shah: So that has been the difference?

Bharat Mody: That also has been a difference but then there are some other cost push as well and therefore these savings and reduction in gas price has helped us where we are able to maintain our margins overall.

Nehal Shah: Sir the arrangements which we have for the APM gas do you think that is going to stay with us for long?

Bharat Mody: Yes. This has been there for last about 35 years ever since the inception of the company and there is no sign where they were discontinued because this gas is coming to our factory from isolated wells. Only thing, more and more units coming from the same basin and authorities have to provide and distribute output of these wells probably satisfy a few more units. This in turn reduces

pressure of the Gas we get. What happens now that we have the sanctioned load of 33000 cubic meter per day that sanction load is not coming more than about 14000 cubic meters per day. Therefore we have to resort to other options for GAS @ market rate. If we could get completely sanctioned load with acceptable pressure from the administered price of isolated wells supply, we would not have look to options @ higher cost at market rate. But that is a kind of a pressure we are not getting from them and therefore we have to go for outside purchases in addition to what we get at administered price from isolated wells

Nehal Shah: But you are sure whatever quantum you are drawing at this moment for the APC?

Bharat Mody: Well it should continue for at least three years- few more years. That is the way we feel.

Nehal Shah: Because the new government, which has come obviously, a lot of freebies say for example in mining etc., has been going away?

Bharat Mody: May be Yes, but our supplies come from these are isolated wells. There are no more takers as of now and therefore these should continue for the next two to three years with same pressure that we currently are getting

Nehal Shah: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Sameer Tulsian from JM Financial. Please go ahead.

Sameer Tulsian: Thanks for the opportunity. Just wanted to understand has there been any change in capex plans with the change in demand scenario and how much of the capex is done in nine months?

Bharat Mody: Sameer, we have done about 40 Crores plus capex in the nine months. We do not think that the next three months we will have more than RS. 5 to 8 Crores spending towards further Capex for FY 2016.

We were hoping that we would raise further capacity in a sanitaryware from 3 million to 3.2 – 3.3 Mn pcs p.a. from current level of 3.00 Mn pcs. In light of the subdued realty market we have deferred this plan for a while we may take a fresh look at it after six months so for the years ahead.

Sameer Tulsian: The demand scenario as you told like continues to be subdued, can you give me any colour like how is one month or the 4Q been and do we see any ray of hope in any particular segment like might be any particular business segment like sanitaryware or faucet or tiles or might be even demand from any particular segment like commercial, real estate or government projects or something like that?

Bharat Mody: That is no noteworthy change what the trend that has been prevailing for the last over about six months or may be nine months I would say, the trend continues as it is and we have to put in more efforts even to sell and market and distribute the products.

Sameer Tulsian: Do we see any increase competitive pressure like we have taken price hikes or is there a sustainability of these price hikes in the current year?

Bharat Mody: Competition pressure is bound to remain. Despite, we have been able to take price rise and sustain. The Channel Partners - Dealers and Distributors have accepted price rise that we have taken and despite these we have been able to maintain a growth. Noteworthy is, as a policy and strategy we took a call, that we had not taken a price rise for almost about 16 to 18 months and have absorbed cost push. In an anxiety to chase growth we cannot compromise our margins for a long long time. therefore we had to take a call once that we can defer the price hike for some time to this extent to chase a growth but we

cannot go on absorbing every kind of a cost push indefinitely.. therefore we took a very conscious decision to take price rise on based on product to product; territory to territory a modest price rise, which has been penetrated into the market and it is accepted well.

Sameer Tulsian: Because I was coming from the point like since the commodity prices of oil like gas prices have favoured us so it might be facing others also, so when the cost is coming down there might be competitive pressure...?

Bharat Mody: Gas prices when you compare with the tiles and compare with sanitaryware industry the consumption and the percentage of the cost has a drastic difference, tiles have a huge cost on a gas which is not that huge or big in sanitary ware manufacturing we do have some savings which is marginal and is reflected in our profits.

Sameer Tulsian: Thanks.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Thank you. Bharat Bhai this growth rate, which we achieved during this three months, is 11% and 12% and nine months around 14%-15% and we are expecting something 18%-20% growth rate seems to be difficult.

Bharat Mody: Very difficult, yes you are right.

Sunil Kothari: Last quarter you said overall you will be able to maintain this 14%-15% growth rate so last quarter we are hopeful or you see any better sign?

Bharat Mody: See generally the trend has remained that Q4 has always historically remained far more better compared to the first half and may be Q3 as well. So in line of this we hope that okay we should cross at least 15% to 18% growth rate, we

should touch that. We should average it out that we will grow at about 15% - 14% on an average for the whole of the year these are again the estimations.

Sunil Kothari: But you do not see any major change happening on the ground when the demand picks up?

Bharat Mody: As such no, honestly no.

Sunil Kothari: Sir you are getting this faucet growth very high so that is definitely because of low base but are you getting this somebody's market share or it is unorganized sector organized shift is happening or what is it exactly just broadly?

Bharat Mody: It is both the ways, generally what happens I would make a very candid admission that one to eight, one to ten is what 'Jaquar'.. they have been so strong brand and acceptable in the market but then dealers and distributors also want an option along with the customer who are also wanting to try other good brands if available. So when you have more brands to deal then the dealer also would like to feel fairly happy about it, we have a low base and we have a very strong brand. So as an option with a very good quality product we have been able to fit into the slot and offer at a very reasonable price band we are finding favours also.

Sunil Kothari: Are you are seeing any shift from unorganized sector to organized in this faucet market?

Bharat Mody: Yes, there is a huge unorganized market when you compare the scenario of sanitaryware also about five seven years before that was identical. Today faucet ware is also in the same stage where almost about more than 60%-62% is unorganized.

Sunil Kothari: Thank you Sir.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Emkay Global. Please go ahead.

Prashant Kutty: Thank you for the opportunity Sir. First of all just wanted to get some comments over here with regard to one of the competitors mentioning in the call that that the institutional activity seems to have come down quite significantly whereas retail was still better as compared to an institutional any comments over here from your end of the on this side?

Bharat Mody: Absolutely, I have not heard that but I would agree to that whatever they have said is absolutely right.

Prashant Kutty: Sir in that sense you are just trying to say that may be retail sale remains fairly resilient in that sense?

Bharat Mody: It looks like yes. It is very flexible.

Prashant Kutty: In that sense obviously Sir we have more proportion towards tier II and tier III markets how has been the tier II tier III markets vis-à-vis tier II tier I markets over here?

Bharat Mody: Look even there also the fact of the subdued market sentiment has affected, though the spillover effect it took some more time to realize this market going steadily down. We have more than 80% to 85% business coming from those tier II and tier III towns which were comparatively less affected, where other competition players apparently stronger in Metros were getting more affected. Eventually, snow balling effect has come in tier II and III towns. Therefore our growth, though we had originally in the beginning of the year was estimated about 18% -20% could not be achieved.

Prashant Kutty: Sir obviously CERA has a fairly strong presence even in the Kerala market as well obviously especially with the crude coming down and may be the remittances

get, there is a fear of remittances getting, are there such affects being visible markets like Kerala?

Bharat Mody: Very much, Kerala has been subdued which was surprising to us as well but that is what the market is, yes.

Prashant Kutty: Okay, so it is actually across the board now this time around, probably you are seeing that?

Bharat Mody: Yes.

Prashant Kutty: But Sir if I look at it actually, we have actually had now four quarters almost about mid double digit kind of a growth rate number and obviously from next quarter onwards the base gets a little more attractive because I guess till now we were earlier running at about almost 30% kind of a growth rate until Q3 FY2015 last year I guess next quarter it turns to almost about a 15% growth rate. In that sense obviously I mean how does the scenario look and also I want to ask you that has there been any change during the quarter in terms of may be October or November looking better than December and December – January being weaker or anything of such kind of monthly trends changing or as such anything?

Bharat Mody: Answering your first question is the growth that you know we are talking about 15% generally is based on a premise that the last quarter has always remained better for us historically for last about 15 years, therefore we feel that okay even to the last quarter the FY2016 should really produce the better revenue growth that is one on which we have been riding on high, number two there has been a good sign in terms of as you approach this at the end of the quarter and March would be the decisive one rather than the January.

Prashant Kutty: Also Sir I want to ask you one last thing over here that obviously we have heard even the competitors talking about going a little slow as far the sanitaryware

capacities expansion is concerned. You have highlighted about the same that you probably are going to particularly slow on that part as well, but obviously clearly it shows somewhere that maybe the demand sentiment still does remain a little benign at this point of time obviously when we may I look at it from CERA's perspective we have got obviously the scope of penetration led growth in faucets as well as the tiles as well. Is there any other possible segments, which you are also looking at as far as entering may be to make up for the growth in that sense, any such thoughts?

Bharat Mody: Currently we would only restrict to the bathroom only. Anything which goes into a bathroom, we probably have all the products as of now, we do not want to look beyond the bathroom at this stage.

Prashant Kutty: Thank you very much and all the best to you.

Moderator: The next question is from the line of Megha Hariramane from Pi Square Management. Please go ahead.

Megha Hariramane: Thank you for taking my call. My question is more on the macro specific kind of market outlook. As you mentioned Sir that the market remains subdued so are we facing a slowdown both in the housing and commercial side or it is either just the commercial getting hit?

Bharat Mody: It is on the both the sides but commercially is more.

Megha Hariramane: This product mix that we are changing I mean a very slight in terms of the product mix in terms of revenue just 3% so do we see a target number going forward that we going to increase the faucet to some particular number?

Bharat Mody: We have raised the faucet ware capacity from 2500 pcs per day to 7200 pcs per day. We are a very small player compared to the size of the market. Again, we are a fairly strong brand and therefore the acceptability of that product is far

more possible and the fact that we have comparatively low base obviously we would see a more growth coming from the faucet ware segment.

Megha Hiraramane: Do we have a target number in mind that how much do we wish to grow?

Bharat Mody: There are no target that we would keep it in a mind in current business scenario except for internally purpose and monitoring Sales people. There are always targets given to the sales team to achieve goals and motivational incentive schemes are offered for internal purposes and to really push our marketing team to perform their best. Over the year FY 2016,we would like to register a growth which is about 15%. That is the target.

Megha Hiraramane: That is perfect. Another question is on the debt part, so the interest cost have come down substantially so how much debt we will pay off this quarter and what is the current cash on the books?

Bharat Mody: CERA is almost a debt free company now. We have a very low debt as of now. will pay off around Rs.2.23 Cr. during current quarter ending on 31st March 2016 The balance of long term debt outstanding as on 31st March will be around Rs. 14.25 Cr.

The current cash balance that we are holding is around Rs.38 Cr. We will be using for increasing capacities or putting up into an acquisition, one we did in the tiles and that is going to be operational by middle of March so the full year FY 2017 will have a better advantage of the tiles capacity coming to us in a JV.

Megha Hiraramane: So that will be functioning from March onwards?

Bharat Mody: That is right.

Megha Hiraramane: What is the current cash on the book Sir?

Bharat Mody: We hold on about 38 Crores plus.

Megha Hiraramane: All this will be internally done all the expansion and everything that we are targeting?

Bharat Mody: That is right.

Megha Hiraramane: Thank you very much. That is it from my side.

Moderator: Thank you. The next question is from the line of Bobby J from Fruze Investment. Please go ahead.

Bobby J: At what point do you book sale, is it when the goods reach the distributors and are they allowed to return and merchandize?

Bharat Mody: Look the distribution set up that we have about 23 stocking point across the country. We have system of 'stock- transfer' to the depot first and the moment this depot is dispatching to distributors / dealers is only against an invoice and at this point the sales takes place. Second to answer your question there are no goods returned back as they are dispatched on 'Sale OR Return' basis. Once the goods are invoices, the sales take place in the books of accounts

Bobby J: So when you say the sales is made you mean the distributors, correct?

Bharat Mody: Yes that is right.

Bobby J: All the inventory that you show in your statements there at the various dealers they are consolidated?

Bharat Mody: They are the depots. Generally distributors do not keep high inventory. The reason being we also have a support where we have a display centered across the country. We have almost about 10 to 12 display centers. We have got more than 150 distributor galleries to demonstrate the product range that we have. The dealers/ end users generally would go and try to select the product they want to place order, they will take the code number and they would order that

to our depots. Within 48 hours from our depot ordered goods will be delivered, generally the dealers or the distributors keep a very very low inventory.

Bobby J: So the dealers pickup the inventory from the depot?

Bharat Mody: Yes. Cera helps the logistics planning. Dealers generally do not keep any inventory except for some of those they want to fill up in terms of demonstration to their dealers, it remains in their showrooms but we have very wide range. They cannot keep every kind of inventory with them and therefore this is a facilitating system that we have where we have our own display centers. We have about more than such 10 to 12 each of about 10000 to 12000 square feet of an area where we demonstrate every product that we have. We do not sell anything from there. It is only for their display. Any customer who would like to buy, any dealer would like to buy he can walk into those display centers and choose and pickup product code and then he can place an order. Within 48 hours from our depot the delivery will be made then invoice will be raised. He also generally would book an order. It goes eventually to the end user.

Bobby J: So inventory the depots that are the way all the inventories are.

Bharat Mody: That is reflected in our books.

Bobby J: Thanks very much.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Siddhesh Capital. Please go ahead.

Dhaval Shah: First question is you said you have done some changes in your product mix looking at the demand scenario so what changes have you done?

Bharat Mody: The product mix is that we are trying to use the better efficiency of the plant, which is capable of, and therefore we are trying to use the capacity at an

optimum. The point that what that we try to use it is an optimization, how we use our capacity. The low contributory margins we try to outsource and we try to use for a high value item. Therefore the margins also should really slightly improve on that part.

Dhaval Shah: But Sir you said the plant to the best utilization that will be done in normal course of business and not necessarily when the times are bad because this is regarding utilizing the assets to the optimum capacity?

Bharat Mody: Absolutely right.

Dhaval Shah: So then when the times are bad how would you change it?

Bharat Mody: The question is even outsourced partners that we have also are subdued in terms of their offtake, also are offering us better price. Therefore whatever we do it we try to use that capacity in an optimum. The word I am using is an 'optimum'. It is not a thumb rule wherever we feel that using our capacities is a better deal, we will do that but using that capacity probably is better not to use it and try to outsource is another option that we have and we choose it depending upon how in that particular month we are booked.

Dhaval Shah: Sir second question is Sir how is the liquidity scenario in the trade channel right now currently when you compare to?

Bharat Mody: Very tight, if you allow me to say we could have grown with 30% had we been a little liberal in our credit terms. We exercise very tight control on our working capital and on the recoveries and therefore we compromised even a growth but we have always managed the working capital better on that part.

Dhaval Shah: So you stick to your credit terms what you give?

Bharat Mody: Yes, we generally give a credit terms about 60 days and we would try to recover money within those many days, but if it becomes little liberal say 90 days or 120

days the growth probably would have gone to about 30% but we were not keen on that kind of a growth strategies where eventually we may end up into some sort of the bad debt which is very likely happening in a trade.

Dhaval Shah: Correct. So even with the current 60-day period have you seen bad debts?

Bharat Mody: No we have not. We have been able to control that kind of a thing. These are all our tested and who have been very long term dealers only through which we do business.

Dhaval Shah: Sir are you planning to increase the sales promotion expenditure, advertising TV advertisement since the times are bad and you are saving some money also on the cost side so what is your thought, are you doing that?

Bharat Mody: We are very consciously taking a call because ultimately it is a brand which has to be reinforced and therefore we would always continue to invest in the brand but we will take a call very judiciously whether it is going to really materialize and give us a payback immediately or may be six month or a year down the line, we will be slightly cautious in spending money. So we will be trying to maintain about 4% – 4.5% of topline.

Dhaval Shah: Okay so this was your norm even two years back also?

Bharat Mody: Yes.

Dhaval Shah: You have not increasing because of the cost saving or because the demand is slower anything like that?

Bharat Mody: Nothing on that sort we will be continuing to the same kind of a thing which we have been doing rather in a bad time or a good time.

Dhaval Shah: Sir just a last question, this is little macro. See there has been a serious slow down in spending in the smaller towns which is your major market because of

various reasons so are you expecting anything, any move from the government towards a more populous side that you know they would give more money behind of the people in the smaller towns, villages and rural areas which would lead to the growth, any sort of expectation anything you are hearing?

Bharat Mody: Honestly, I know as much as you know maybe it is a government policy, we are in the same side where we would try to view how the government would relate to this kind of a situation. It is a welcome thing if they do it.

Dhaval Shah: Thank you.

Moderator: Thank you. The next question is from the line of Jaspreet Singh Arora from Systematix Shares. Please go ahead.

Jaspreet Singh Arora: Good morning. Sir just if you could repeat the sanitaryware sourcing mix please, manufacturing 28%, import 13%, and domestic 7% what was the balance?

Bharat Mody: I said the 28% is own manufacturing, 13% is imported, outsource 7% is again domestic outsourced and there are allied product which we completely outsource is 14%, so total outsourced comes to have 35% and our manufacturing is 28%, making the tally to 63% and the balance is coming 21% from faucets, 13% is coming from tiles and 3% is coming from Wellness range of product makes 100%.

Jaspreet Singh Arora: Did you also mention that faucets we have grown in the last nine months at a growth of 50% did you mention something like that?

Bharat Mody: Yes, we were having the capacity of 2500 pieces per day. We raised the capacity of 7200 pieces per day. Currently we have increased the capacity we are using about 50% to 55% of the capacity which makes about 4000 plus pieces per day which is compared to my original capacity of 2500 we have grown by about 50%.

Jaspreet Singh Arora: Understood, so 55% utilization here and on the sanitary ware side what is the number?

Bharat Mody: It is almost about 98%.

Jaspreet Singh Arora: So given this backdrop you are saying increasingly whatever volume growth that would be seen that will be catered to from the outsourcing model versus not expanding at the current juncture?

Bharat Mody: You are talking sanitaryware?

Jaspreet Singh Arora: Yes Sir.

Bharat Mody: Yes, currently yes.

Jaspreet Singh Arora: So that is remunerative?

Bharat Mody: It is a cautious strategy that management has taken a decision.

Jaspreet Singh Arora: Sir on the gas prices that you mentioned so currently from the isolated wells that we get is about 40% plus right?

Bharat Mody: That is right.

Jaspreet Singh Arora: Was this number close to about 50%?

Bharat Mody: More than that, it used to be 65% in the earlier years, simultaneously we raised the capacity from 2.7 to 3 millions so the capacity also has gone up and on the other hand the supply also has got the shrunk on that.

Jaspreet Singh Arora: The reduction that you have seen on the open market prices from Rs.44 to Rs.28 is this, the number that you are talking about for the last quarter or is it at the current juncture?

Bharat Mody: There has been a steady fall in line with international crude price falling. Last quarter more because there has been a trend also that it got reduced from 44 to 35, 32, 30 as the crude price is internationally goes down also that also get reduced.

Jaspreet Singh Arora: Understood. So as it stands now it is around Rs.28?

Bharat Mody: Currently Rs.29, Rs.28 to Rs.29. 28 to 30 to be honest between that we have got that.

Jaspreet Singh Arora: So Sir is it fair to assume that the full impact of this reduction would only been seen in the fourth quarter?

Bharat Mody: Well it has been seeing every time, more in the fourth quarter also where we raised our product price selectively we should be able to maintain a growth and should be able to control our cost it should also get reflected in some of the other way in our margins as well.

Jaspreet Singh Arora: Lastly on the capex number that you had given so 40 Crores we have done so far and for the next year you mentioned it is going to be less than 10 Crore right?

Bharat Mody: It is the quarter. I am saying the quarter that is the last quarter I mean on March 31, 2016.

Jaspreet Singh Arora: That is going to be sub 10 Crores?

Bharat Mody: About 8 Crores.

Jaspreet Singh Arora: For the next year I mean you will only be able to comment post March?

Bharat Mody: Only after post March we will take a call how much we will be spending on a capex.

Jaspreet Singh Arora: Thanks Sir. This is helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Umesh Raut from Equirus. Please go ahead.

Umesh Raut: Good morning. Sir just I would like to know what could be the sanitaryware industry growth for the nine month ending FY2016?

Bharat Mody: See there are no definite figures available because there are lot of unorganized sectors also into the play and therefore to really give you a figure it is only we have to rely on a government data which again are about couple of years old, but our internal studies say that okay, even there also the growth has been a very subdued anything between 5% and 6% on a range that we are into it. But if you take a Swachh Bharat, which is a very low end there the rise has been phenomenal. That is the news we have been getting from the market. Morbi, which is a hub for your sanitaryware all the low end product, they have been using capacity almost 100%, which means a lower end product, which goes to a Swachh Bharat, has a phenomenal rise.

Umesh Raut: Sir do you see any threat coming in from more of dumping of Chinese products in sanitaryware and faucet ware?

Bharat Mody: Sanitaryware is not very much possible because the volume of the product is so high and the weight and therefore the freight element would be very high if that comes there and at that time the global player in India also would be able to sell like Kohler or a Roca or may be TOTO like for Chinese product will not have much of a impact there. As far the tiles are concerned yes but then there is an antidumping duty and therefore that also does not make a very plausible decision for Indian dealers to really go for that.

Umesh Raut: So Sir on the topline growth for this quarter is there any impact of Chennai floods or the eminence in the southern markets?

Bharat Mody: Yes, to an extent yes.

- Umesh Raut:** I mean could you please quantify, how much of impact was there?
- Bharat Mody:** It is very difficult to quantify that part, very difficult because in general you know where even the rains have not affected those states also have been subdued including Kerala, Karnataka and Andhra.
- Umesh Raut:** So if I am not wrong your southern market contribution is around 40% to 42% right?
- Bharat Mody:** Almost 40 % plus, yes.
- Umesh Raut:** Sir on Anjani Tiles JV what kind of capacity utilization you are targeting for FY2017?
- Bharat Mody:** About 10000 square meters per day.
- Umesh Raut:** Okay so peak turnover from that JV is around 130 to 140 Crores right?
- Bharat Mody:** It depends upon what kind of product mix that we will have and if we go for the soluble salt it is going to be only about 75 Crores but if you have a combination the GVT as well as the double charge nano it can go to 125 Crores as well, now these all would depend upon the market dynamics, how we are able to use capacities and how much product that we are able to push it.
- Umesh Raut:** Okay and outsourcing for the tiles I mean would continue for FY2016 also right?
- Bharat Mody:** It would also continue to cater the market on the northwest.
- Umesh Raut:** Sir finally what kind of EBITDA margin you are seeing for this JV?
- Bharat Mody:** We should have at least reasonably good margin if Kajaria is a benchmarked about 15% plus we should be eyeing that.
- Umesh Raut:** Thank you very much Sir. All the best.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Good afternoon Sir and thanks for the opportunity. Sir in sanitaryware and faucet what would be your average utilization?

Bharat Mody: Sanitaryware is about 98% capacity utilization and on the faucet we are using about 50% to 55% capacity as of now to increase the capacity.

Nikhil Upadhyay: Sir in sanitaryware as you mentioned that most of the premium products we are trying to optimize the production and bringing it in in-house and outsourcing the low quality product so how do you see the roadmap here because like if 98% of utilization which is mainly towards premium is being used up how do you see the future capex plan for the sanitaryware part?

Bharat Mody: First of all let me tell you that there has been a trend which has been changing, unorganized sector getting / upgrading to an organized sector, the customers are choosing a branded goods and material that is No.1; and even now tier II towns also are going for a premium range of a product. There has been a really a sea change in terms of the lifestyle living therefore our products is generally accepted as a value for money in a tier II tier III towns is changing mood towards more spending with upper range therefore we are trying to use our capacity to optimize. These eventually should really help us to improve our margins but we do take a call only after about six months down the line where the market really reacts and stabilizes and we must build further capacities.

Nikhil Upadhyay: Would you be looking at JV type of a partnership here or own facility?

Bharat Mody: Sanitaryware we are slightly would like to have our own 100%, though we are in the business we are entrepreneur, we find a good proposition, we are always open.

Nikhil Upadhyay: Sir in sanitaryware other than the Swachh Bharat Abhiyan are the government orders flowing in tiles or sanitaryware or the government construction orders are also not coming up?

Bharat Mody: We generally do not deal with the government

Nikhil Upadhyay: Sir in terms of our distribution in south so two years back we were looking at aggressively increasing distribution in south and as you mentioned just a while back that 40% of our sales now comes from south so have we been able to gain market share from Parryware significantly or is it that how is the market dynamics there working out?

Bharat Mody: If I take last three years , we have done tremendously good. Earlier we were only strong in one state called Kerala. We tried to replicate the same story in Karnataka and also did it in Andhra Pradesh where Parryware and HSIL both the brand have been fairly strong. Since we have taken over these two more states there is a new market territory which has come to us even at the loss of the existing High Brand players who where there or may be the market also have increased. Tamil Nadu in particular has been a den of Parryware and to penetrate there is not that easy, but despite these we have been making vigorous efforts which is really helping us to at least gain some market share there too but not as much as what we have gained in Karnataka and Andhra Pradesh.

Nikhil Upadhyay: Sir Karnataka and Andhra Pradesh and Kerala combined would be equally divided between the 40% so each would be around 10% to 15%?

Bharat Mody: Kerala would be the strongest, then comes Karnataka and then comes Andhra Pradesh.

Nikhil Upadhyay: Now in terms of scale up in the other parts of the country like east and the northern parts how do you see is there the opportunity for us to grow there?

Bharat Mody: We see there is a great opportunity east and the far east states like the Assam, Arunachal, Meghalaya and we have made at least made dent there as well, almost about a 5% to 7% of our business now has started coming from those states which was almost zero about few years back.

Nikhil Upadhyay: But Sir on freight cost does it hit significantly because we have only manufacturing is in Gujarat so we are almost covering half of the country and trying to sell?

Bharat Mody: Freight cost is definitely an important cost but the only question is we got a lot of cost advantage being at a single location, the rationalization of an overhead, the gas at administered price that we have here and therefore any of our cost of production compared to a competition is slightly lower which we anywhere are able to pass on to the end user and therefore in the markets generally our products are available at about to 5% to 10% cheaper compared to our competition though in terms of the quality probably we are at par or sometimes we are better These advantages of 10% to 12% when you go to the Far East states as such helps us in balancing incremental cost of freight element .

Nikhil Upadhyay: Just a last question, in east our competitor mainly would still the HSIL and Parryware or are there any local player?

Bharat Mody: These are the two main and of course Chinese products, which are unbranded or low brand value.

Nikhil Upadhyay: Okay but over there our quality would be better?

Bharat Mody: Always at par and with consistency.

Nikhil Upadhyay: What would be the price difference that the Chinese would be selling to us in east?

Bharat Mody: China has a very different kind of a thing, sometimes they will come out with the very attractive price and again they vanish and again they come back with the price, which they will not be able to match our pricing. So it all depends consignment to consignment. There are no thumb rules on that.

Nikhil Upadhyay: Sir there is no consistent Chinese competition as such, they are in and out type?

Bharat Mody: Yes in and out, apart from that what happens there is some large builder or those businessmen who bring a consignment load, as and when consignments are available probably they are able to flow into the markets after that when they sell there is a holiday for them for about two three four months and then no material available. So there is inconsistency.

Nikhil Upadhyay: But Sir on our brand we have got a good brand equity in east as well?

Bharat Mody: Yes, very much brand is very well accepted there as well.

Nikhil Upadhyay: Okay and what would be your distributors or if you can share the number or if you can give a rough idea how would that distribution be in east and south now?

Bharat Mody: South is maximum because you know 40% business comes from south, east is only 5% business that we are getting now. That means it is almost about one-tenth of what probably we have collectively in the southern part.

Nikhil Upadhyay: But Sir in terms of increasing the distribution reach we would now majorly be focusing on east or is it like south would still be our main priority?

Bharat Mody: Basically we would keep a strong foothold where we are very strong anyway. We will try to further intensify where we r strong and t the same time will try to reach out to other virgin territories

Nikhil Upadhyay: Lastly Sir you mentioned that we took a price increase, if you can just share what is the quantum of price increase?

Bharat Mody: **Selectively** Anything between 2% and 7% depending upon product-to-product and territory-to-territory.

Nikhil Upadhyay: Thank a lot Sir.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Thanks again. Bharat Bhai what is the status of tiles for the JV?

Bharat Mody: We should be able to commence the commercial production by March 15 give or take end of March.

Sunil Kothari: This would be target to achieve capacity utilization?

Bharat Mody: Almost 100% because today also we are selling tiles which is more than the capacity that we have installed there.

Sunil Kothari: Sir my next question is looking at this current scenario next year it will be very difficult to grow at around 15%-16% or you do not want to hazard a guess?

Bharat Mody: It is too premature to really make any judgment about this but it could be only a quarter to quarter base rather than to give you a full year picture, a lot would depend upon how the budget is able to monitor the economic parameters which we induces people and assures people for an economic stability as well as spending power. RBI has a lot of role to play also in terms of what is the banking arrangement and what is towards the housing loans so there are lot of other parameters which will go into the fray before we really get an impact of it. So we will keep our finger crossed on a quarter to quarter base rather yes optimistically we would always like to grow about 20% and internal target

would always be there but real terms market dynamics of entire building material and of the reality business we will have to assess on a quarter to quarter basis.

Sunil Kothari: So internally what else we can do other than these external factors, which can grow in the coming years?

Bharat Mody: Focus as of now it is not on growth alone we would like to concentrate more on how we really improve our margins with better cost and working capital management . What is in our control is to some extent the cost. So our focus is more in controlling cost from last quarter onwards because chasing e growth is dependent on outside forces more and is not in our hand alone so we better focus and concentrate what is in our control.

Sunil Kothari: Thank you.

Moderator: Thank you. The next question is from the line of Girish C from Spark Capital. Please go ahead.

Girish C: Good afternoon Sir. Sir in terms of our new tiles joint venture what is the fuel arrangement there?

Bharat Mody: We will be using a gasifier as such coal gasifier.

Girish C: What will be cost of basically in term of cost of production?

Bharat Mody: We have to finalize that part before the commercial production is not there. We will not able to commit any figure on that, you have to wait at least for one or two more quarter to raise this question and then I will answer you.

Girish C: The other thing what is the transfer pricing arrangement between the joint venture to us?

Bharat Mody: This will be as per the transfer pricing norms as per the accounting standard with arms length pricing

Girish C: Sir what is the average margin the JV will take?

Bharat Mody: Joint Venture will have a cost plus.

Girish C: Yes so what is margin?

Bharat Mody: We would not like to share that at this moment. It is too premature.

Girish C: On the working problem how is it progressing Sir especially in the tiles business what is our arrangement for dealer?

Bharat Mody: Arrangement is a same. We generally give 60 days credit and many dealers who have been loyal to us for number of years they pay us in 30 days or may be some in the cases 7 days also.

Girish C: Okay, no because sanitaryware we pay 60 days?

Bharat Mody: It is the same policy. There is no separate policy for any other product whether it is a faucet or a tile is a same policy.

Girish C: The reason I asked is basically the tiles players offer lower credit days for the tiles business so, which is what I wanted to clarify?

Bharat Mody: It depends upon what kind of a pricing do we get. If we get a price, which is rock bottom price, then may be cash against delivery. If we are getting a reasonable price then it is 30 days but if we are getting more than the reasonable price it could be about 50 days also. But we will be very cautious about whenever give credits to the people we would always give to the tested dealers and the distributors.

Girish C: Any other joint venture in tile, which you are thinking of Sir?

Bharat Mody: As of now not till we are able to use this capacity number one, and here also these plants are capable it is scalable about three to four times in the same location.

Girish C: Basically what is our capex plan heading to 2017-2018?

Bharat Mody: As of now it is too early to really freeze that part, because the market is in a very different mode as of now. But we are the cash yielding company we would be generating enough cash accrual, which would always force us to look into a more enterprising business decisions.

Girish C: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Ateek B from Capital Matrix. Please go ahead.

Ateek B: Sir one question I could not hear how much is the cash balance as of date?

Bharat Mody: We have around Rs. 38 Crores plus.

Ateek B: Sir it is my understanding we are already selling 12000 square meter plus per day tiles so in the last call you said that in the first year only we will be utilizing 100% of the new plant?

Bharat Mody: That is right.

Ateek B: Currently our EBITDA margin for tile business is in single digit because of the outsourcing model?

Bharat Mody: That is very right.

Ateek B: Yes that will be heading to our margin right substantially?

Bharat Mody: That is right.

- Ateek B:** What you said about 75 Crores to 125 Crores range so in which range we are in right now because approximately 100 Crore is our tile sale for now right?
- Bharat Mody:** Yes we are in a mixed range now. We therefore hope that we get the same range will continue.
- Ateek B:** Okay and every range what we are selling right now we can produce in Anjani?
- Bharat Mody:** That is right, yes.
- Ateek B:** So when the next plant, like when you will be deciding on Rajasthan Greenfield plant that you had envisaged?
- Bharat Mody:** That will take at least about a year or more because by the time we are able to freeze and we are able to stabilize our production and marketing arrangements and selling arrangements about whatever we produce from Anjani this is getting absorbed.
- Ateek B:** But this existing plant will only add substantially to our existing margin and because of the power cost it has already been better. Thank you very much Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Bobby J from Fruze Investment. Please go ahead.
- Bobby J:** Just a clarification did I hear you saying one of the answers to the previous question that consumers in tier II and tier III cities are getting more aspirational and they are opting towards premium products?
- Bharat Mody:** This is exactly what our outflow in terms of dispatches to distribution channel is giving a signal on that part.
- Bobby J:** So how would your positioning work there?

Bharat Mody: So we are in the same range. We are into upper- upper and upper- middle Range. There is a 15% business which is for a premium range. I may like to give a breakup, 40% goes for a mass market, 23% goes for an upper- upper end of the market, another 22% goes for an upper - lower end of market and about 14% to 15% goes for the premium range. Now this 14% to 15% pure premium range, which goes into the metros. Generally, the tier II tier III towns were contended with what is mass market and upper - lower end. Now there will see a movement where people are trying to shift in the upper- upper end of the market.

Bobby J: Sir would that mean that you would entail more your own capacity or does it entail?

Bharat Mody: We will be able to use full capacities more proficiently and where the production efficiency is also would be better which can give us a better margin because of the better price realization.

Bobby J: This has been a very recent trend like just in the past quarter?

Bharat Mody: This has been for last few months ..our recent experience in this for last about two or three months. We really need to see it continues or whatever the way we need to test that part for one more quarter, may be from another two three quarters consecutively, to really come to any conclusion about that kind of trend.

Bobby J: Thank you.

Moderator: Ladies and gentlemen that was the last question I would now like to hand the floor over to Mr. Kamlesh Kotak for closing comments.

Kamlesh Kotak: How much did we invest in this tile JV till now?

Bharat Mody: We invested about 19 Crores.

- Kamlesh Kotak:** How much more to go?
- Bharat Mody:** That is enough for us for these 10000 square meter capacity that is what our target was and we have already made investments on that.
- Kamlesh Kotak:** That is completely through right?
- Bharat Mody:** Yes, as of now Yes.
- Kamlesh Kotak:** Sir how many JV partners we have I mean outsourcing partners we have for tiles and sanitaryware?
- Bharat Mody:** We do not have a JV partner we have only contractual arrangement. But outsourcing there are three partners for tiles and even for sanitaryware we have two partners, domestically.
- Kamlesh Kotak:** Faucet also?
- Bharat Mody:** Faucet we have numerous because we have a lot of internal parts which we try to outsource and we try to assemble them so there are numerous people who are been supplying one or the other components.
- Kamlesh Kotak:** Wellness is all imported?
- Bharat Mody:** It is completely outsourced and imported but our own brand, our own marketing, our own logo, a team which is stationed in China which is on our role they try to control the quality, dispatching their logistics and when we get it in India we service them we install them.
- Kamlesh Kotak:** Sir going from longer-term point of view do you see this tiles and faucet business to grow to what level of the total revenue pie?
- Bharat Mody:** It could be about 25% each of them.



Cera Sanitaryware Limited
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Kamlesh Kotak: Great Sir, on behalf of Asian Market I thank everyone for joining for this call. Special thanks to Mr. Bharat Bhai for providing us the insight about companies business and financial performance with that we conclude the call. Thank you and have a great day.

Bharat Mody: Thank you Kamlesh Bhai. Thank you very much.

Moderator: Thank you members of the management. On behalf of Asian Market Securities that concludes this conference.