



**“Cera Sanitaryware Q1 FY2017
Results Conference Call”**

July 14, 2016



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Cera Sanitaryware Limited
July 14, 2016

Moderator: Ladies and gentlemen, good day and welcome to CERA Sanitaryware Q1 FY2017 results conference call hosted by B&K Securities Indian Private Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Srivastava. Thank you and over to you Sir!

Amit Srivastava: Thank you. Good afternoon everyone. On behalf of B&K Securities we welcome you all to the Q1 FY2017 earnings conference call of Cera Sanitaryware Limited. We have with us Mr. Atul Sanghvi, Executive Director and Mr. Bharat Mody, Strategic Advisor representing the company. Now I hand over the call to the management to take us through the overview on quarterly results and Q&A session. Over to you Sir!

Bharat Mody: Thank you Amit. I am Bharat Mody and I welcome everyone to join this call. Before we begin, I would just read out a disclaimer, which is as follows.

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.

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Atul Sanghvi: Good morning everyone. The top line for the Quarter remained at was 223.94 Crs.; the EBDITA Earnings Rs. 37.48 Crs.; the earning before tax Rs. 32.76 Crores; the Net profit Rs. 21.40 Crs. The top line growth was 12.17% and the growth in the net profits was 36.59% and the annualized EPS was Rs.65.81.

Bharat Mody: This is already published in the newspapers. One could always have an access to these information .

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. We will now begin with the question and answer session. The first question is from the line of Gunjan Prityani from JP Morgan. Please go ahead.

Gunjan Prityani: Thanks for taking my question. I just had two questions. Firstly could you give us some sense of how has been the growth across Sanitaryware, faucets and the tiles and what are we expecting for full year in terms of overall growth and secondly your outlook on the advertisement cost please? Thank you.

Bharat Mody: The business has remained subdued as it has been witnessed during last three - four quarters. With possibility of good monsoon, we hope that the demand scenario should improve .

The growth of 12% in Quarter 1 of FY 2017, in terms of Value and Volume put together and compared to what CERA had in the past few years, is low for the overall market dynamics have continued to be slow. However the segment wise breakup and the composition of business segments have remained more or less stable, we have business coming from pure Sanitaryware of about 50%; about 13% from the allied products which are allied to the Sanitaryware business which comprises of PVC Seat Covers, PVC cisterns and some of the fittings which essentially go with the sanitary ware ; about 20% business coming from faucet ware, and about 14% business coming from tiles. The balance 3% is from the Wellness range of products, such as bathroom cubicles, bathroom partitions, Shower panels etc. The overall growth as I said is about 12%.

Gunjan Prityani: Sir any color you can give in terms of what is pure Sanitaryware growing at and what are faucets and tiles growing at because of course last year Sanitaryware was at low single digit, so I am just trying to gauge this 12%, how is it coming from these respective segments?

Bharat Mody: Yes we will give you those figures as well. When we compare on year to year basis the results of Q 1 of FY 2016 and that of FY 2017, the pure Sanitaryware has grown by 8.31 %

Gunjan Prityani: How much has faucets and tiles grown at?

Bharat Mody: % the faucet business has grown by 9.23%; the Tiles business has grown by 19%

Gunjan Prityani: 18%, 19%, Sir faucet growth has come down to 9%, any specific reason because I think this has been in past growing at about over 20% for us because the base is reasonably decent and I mean of course we have had the new capacity which is became operational last two years, so I mean anything specific or this should be the growth trend now?

Bharat Mody: This composition undergoes internal changes. Some quarters, SW would be ahead and in some quarters other products like FW and or Tiles would take lead. But in general, as we have stable platform for distribution network, products such FW and Tiles which have comparatively lower base would show higher growth %

Gunjan Prityani: Okay, do not know specific reason for a lower growth in this quarter in faucet?

Bharat Mody: There is no specific reason excepting demand scenario which is subdued in building material industry as a whole.

Gunjan Prityani: Sir the second question on the advertisement side, how much are we planning to spend this year?

Bharat Mody: General budget is about, 4.00- 4.50% .we would try to restrict to this.

Gunjan Prityani: Thank you so much Sir.

Moderator: Thank you. Next question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: Thank you for the opportunity. My question again is about the demand side. Are there specific reasons, which are doing better, or is it pan India that you are seeing some improvement in Sanitaryware on YOY basis?

Bharat Mody: There is no drastic improvement seen in demand scenario. With encouraging Govt. policies on housing, more on affordable housing range, demand indications are signaling steadily upward trend and with a good monsoon that we all look forward to this should still be getting better in time to come

Anshuman Atri: To verify the Sanitaryware had 8.31% growth, faucet 9.23% and tiles 18 to 19%?

Bharat Mody: That is right.

Anshuman Atri: Secondly is on the margin side, so we have seen a good margin expansion in the last two quarters, so do we think this is the margin which is sustain for the full year at around 17% EBITDA margin?

Bharat Mody: We hope that this margin is sustainable.

Anshuman Atri: So for the full year we could expect this margin and lastly on the capex front, which all investments can we expect in this year and next year going forward in terms of tiles, faucets or any other Brownfield?

Bharat Mody: Before you come to a conclusion on EBITDA margin, I would also like to caution on this front more how the demand scenario emerges post monsoon effect.

Firstly, We had taken a price rise during last - Q3 of FY 2016 and because of the price rise we got a better realizations which continues to be so is number one;

Secondly, we also have improved our product mix with more premiumization that also has given us a good margin and this trend is likely to continue.

However, both the above positives have be read with how the demand scenario emerges post monsoon effect. The endeavors of the company is to sustain the margin as demonstrated in Q 1 of FY 2017, safely the EBDITA margins of 16.5% to 17% quite sustainable depending upon what kind of product mix that eventually we end up at the end of the year with price realization. Second question that you are asking was about?

Anshuman Atri: Capex plan for this year?

Bharat Mody: We have a rolling plan for the next three years of around Rs. 200 Crs. on CAPEX largely depending upon what internal accruals that we would generate. This is planned to be incurred in raising manufacturing capacity on Sanitaryware this time from 3 million to 3.3 million; we would upgrade technology in JV tiles plant to add on premium products like GVT and Double Charge Tiles besides SST

On Faucet ware, this further scalable to 10,000 pcs per day from current installed capacity of 7200 pcs. per day. The current utilization of capacity of SW is around 97%-98% and that of FW almost about 60% plus. We hope to reach to utilize this capacity iof FW to around 80%+ to 90% by the end of the year FY 2017. We will take a call whether we still would like to increase the fuller capacity on a faucet and that would make sense for us.

- Anshuman Atri:** Thank you for answering my questions and all the best for the next quarters.
- Moderator:** **Thank you. Next question is from the line of Dhaval Mehta from Emkay Global. Please go ahead.**
- Dhaval Mehta:** Thanks for the opportunity. Sir in Sanitaryware we saw steady growth this quarter after a lull of many quarters, so can we say our green shoot visible in the market or it is too early to call out that?
- Bharat Mody:** **The demand continues to be subdued even now. However, with strong brand power CERA has been able to float above. The indications of good monsoon ahead is expected to open up some demand for better in housing sector if we compare to FY 2016. We see movement in the affordable housing range and the demand is likely to open up as we have started getting enquiries in some of the good territories**
- Dhaval Mehta:** So in this 12.8% Sir can you give us a mix of what will be volume lead and what will be price lead?
- Bharat Mody:** **We have not taken the price rise during the last quarter and I would rather say it is basically because of a product mix towards premiumization the realization which is going up.**
- Dhaval Mehta:** Overall how has been our project sales been, so the demand which we are saying is still the due demand of the real estate activity or the replacement demand is also started to show positive signs?
- Bharat Mody:** **Project there earlier used to be a large project with luxurious apartments and bigger houses, now the trend probably is shifting towards more on an affordable housing, so there are new enquiries from the project coming on an affordable housing board than the larger projects. However, the large project and life style range of apartments too may not lag behind much as the overall demand scenario improves**
- Dhaval Mehta:** Basically are the margin same in affordable housing vis-à-vis let us say for larger projects or we have to compromise a bit on the margin side?
- Bharat Mody:** **The margin stabilizes there.**
- Dhaval Mehta:** Okay and how you see the overall real estate activity picking up let us say in next, if we assume that the monsoon is likely to be good, so do you foresee any pickup in the real estate activity per se?

Bharat Mody: It has to be there, because for last year- year and a quarter these have remained very subdued and now the government policies are also helping on affordable housing, the interest rates also are more or less stabilizing and with an indication that it might get reduced further, the demand for affordable housing in two bedroom apartment, single bedroom apartments are on a rise. Also the Central Government which has announced the wage hike that money also is going to pumped into the market, which benefit the consumer goods at large and those who probably would like to take a little more liability on an affordable installment on housing, is should be a good time those who have been waiting will also get a chance here.

Dhaval Mehta: Thanks a lot Sir.

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

Nehal Shah: Thank you Bharat Bhai for taking my question. Sir couple of questions, one on the margin side, the large part of the margin expansion has come through expansion in gross margins, so including the gas prices which has gone down, I think the gross margin expansion is close to 400 BPS so what do you think has been the major contributor here, is it the price rise or the premiumization, what has actually helped to grow in terms of margins?

Bharat Mody: It is a combination of all the factors. We have shifted our focus more in a premiumization is number one. The response also is very good. There also has been a commodity price going down with international prices of Oil and Gas is another cost saving component affecting our margins on positive side . Number three operational efficiencies has also been improved, we have made a lot of improvement with the process parameters. We experimented successfully these process quite sometimes- last about 18-20 months which has now started paying dividends. So when we combine all those things, which have contributed to the margin improvements, and therefore you know this is one good reason why this margin improvements can sustain even on a longer period.

Nehal Shah: Sir how much of premiumization increased year on year, by how many?

Bharat Mody: I give the breakup - we have about 40% business coming from a mass market, The next category of market layer - The Mid Level - is divided into Upper - Upper and Upper - Lower which used to contribute equally between 22% and 23% respectively. The that Upper - Lower is now more or less getting stabilized at 20%. However the Upper - Upper has gone to 25% where we have much better realization, so as the premium market that we are about 14%, 15% presence there also the realization have improved.

Nehal Shah: How much was premiumization earlier, corresponding?

Bharat Mody: **14 to 15 % but we have improved this marginally too in increased market share that we have now**

Nehal Shah: Understood and that is likely to increase further because your brand is coming into picture?

Bharat Mody: **Our endeavors would be that way so that we get much better realization.**

Nehal Shah: Sir also if you can give some color on Anjani Tiles how has been the production ramp up, what has been the utilization in the first quarter, how is that expected to pan out for the full year just some light on it?

Bharat Mody: **Anjani Tiles is a good move in a very positive directions. we signed up JV with them with 51% stake. Anjani Tiles has started commercial productions only on 1st of April 2016 and this quarter we are stabilized the production parameters with use of capacity touching almost touched 90% in June 2016. As we progress thgis will touch 100% utilization. We are also investing more in upgrading the technology to help us developing manufacturing capabilities of GVT and Double Charged Tiles. It might take another six months and by the last quarter FY2017 we hope to have this ready.**

Nehal Shah: The numbers of that would only come in the consolidated financial at the end of the year?

Bharat Mody: **That is right.**

Nehal Shah: Right and you expect the entire 10,000 square meters to be utilized by the end of the year?

Bharat Mody: **Absolutely.**

Nehal Shah: So possibly a turnover of around Rs.100 Crores from this facility?

Bharat Mody: **It is what the capacity and the way we are trying to position as well as how we really try to mix up a product.**

Nehal Shah: Right, but on an average Rs.100 to Rs.120 Crores?

Bharat Mody: **Anything between 95 and 100 Crores.**

Nehal Shah: What kind of margins would you look at this for the JV in particular?

Bharat Mody: Margins are reasonable that is why the Q1 has come out with it, but this is too early to say that.

Nehal Shah: Sir that is as far as the standalone operations is concerned, but for the JV in particular how much would be the margin?

Bharat Mody: That is what I am saying, it is too early to really comment on that part, but the margins are reasonably good. The standalone margins are also good both for CERA as well as for the JV Company. What is important is market has to pick up; once the market picks up probably the fruits that we are trying to anticipate will really get realized and will be coming to the books.

Nehal Shah: Right and Sir any further plans of another acquisition or anything are you looking at entirely?

Bharat Mody: As of now no other acquisitions. We would firstly like to reach 100% capacity utilization. The current infrastructure permits to scale up this around 3.5 times of the same location. Our focus would be more on that part that is how do we scale up this to cater to the southern market. As for other parts in north and western India, we are currently using outsourcing business model with supports from our contract manufacturing arrangements from Morbi

Nehal Shah: Sir last thing is how would IndAs impact you in terms of consolidation?

Bharat Mody: This is the very first year. This is not applicable to our company mandatorily as we have one more year to go for that. It will become applicable to us mandatorily from FY 2018 onwards

However as progressive management, we have volunteered this IndAs for FY 2017. The results of Q 1 of FY 2017 is based on IndAs. If can see this time that our top line includes the excise duty as well with what IndAs calls for. This in turn has reduced our EBDITA on a Y o Y Comparison.

I suggest to have a look at the explanatory note no 4 of tge published result reported in News paper as well to the Stock Exchanges. The EBITDA margin of 17.55 % is reduced to 16.74% with IndAs volunteered by us.

Nehal Shah: Right, but as far as JV composition is concerned?

Bharat Mody: JV would become applicable, but then we would be only taking a consolidation at the year-end.

Nehal Shah: At the year end only.

Bharat Mody: Yes. We have all the three quarters but without a consolidation of JV business.

- Nehal Shah:** Thanks a lot for answering my question.
- Moderator:** Thank you. Next question is from the line of Umesh Raut from Equirus Capital. Please go ahead.
- Umesh Raut:** Most of my questions have been answered, just two more questions, I mean how do you see response for the products, which are I mean launched under the tie up with ISVEA?
- Bharat Mody:** **ISVEA is still a beginning. We wanted to have a position created in a top most premium market and compete the global players. ISVEA is one of the very renowned brands in Europe, which is designed in Italy and manufactured in Europe. The current arrangement is we are importing from ISVEA and co-branding it along with their supports in India so to create a niche market for ourselves in that particular segment. This is too early at the moment to say how that brand will do and contribute the business. However, we have a lot of hope from ISVEA arrange of products for they are one of the best designed SW that part. Let one year pass on that front and will have better picture to bring this before you**
- Umesh Raut:** Sure and second thing in terms of distribution network how have you placed your plan to kind of increase the dealers in northern or particularly in Eastern state, so what is the update over that?
- Bharat Mody:** **It has been an ongoing process. Now that we have increased the capacities and we have plan to increase these manufacturing capacities further in next three so we are also trying to reach out to newer market territories such as Eastern India is one market which we have been eyeing besides further intensifying where we already present. Therefore the increasing distribution reach would call for expanding the dealers network**
- Umesh Raut:** Okay, how many dealers you are trying to add during this year, I mean FY2017?
- Bharat Mody:** **We have around 15000 distributors - now. We aim to add further at least 30% in next three to five years so to reach around 20,000.**
- Umesh Raut:** Thank you so much Sir.
- Moderator:** Thank you. Next question is from the line of Pratik Shah from Antique Finance. Please go ahead.
- Pratik Shah:** I am sorry if I missed it, but could you share the contributory of sanitary, faucet and tile for Q1 FY2017 and Q1 FY2016?
- Bharat Mody:** **FY 2016 anyway we had given you earlier. I do not have the readymade figures available. you may please log in to our website, the transcript is available there too. However I may say that**

the trend in terms of % composition has remained steady with marginal difference only. The composition of top line with product category / segment wise break up for Q 1 of FY 17 have already given earlier in this call, however even at the cost of repetition I may again like to update you that , we have business coming from pure Sanitaryware of about 50%; about 13% from the allied products which are allied to the Sanitaryware business which comprises of PVC Seat Covers, PVC cisterns and some of the fittings which essentially go with the sanitary ware ; about 20% business coming from faucet ware, and about 14% business coming from tiles. The balance 3% is from the Wellness range of products, such as bathroom cubicles, bathroom partitions, Shower panels etc. The overall growth as I said is about 12%.

- Pratik Shah:** Sir one more last question, Sir any particular reason for faucet growth slowing down this quarter?
- Bharat Mody:** No it is not slowing down as we have grown. We have grown with 9.23% when compared to q1 of FY 2016.
- Pratik Shah:** Thank you.
- Moderator:** Thank you. Next question is from the line of Praveen Sahai from Edelweiss Broking. Please go ahead.
- Praveen Sahai:** Thank you for taking my question. Just on as you had already mentioned our overall growth of 12% or whether it is sanitary 8.31 %, it is a mix of a realization plus the volume, can you quantify any numbers in that?
- Bharat Mody:** It is not possible, the reason being, it all depends upon a product mix. To simplify this I may like to say that the volume will jump if we manufacture small items and vice versa. What matters eventually to us is the higher production value that we turn out even with a lesser number of volume. if my production value goes up even with reduction in volume is a indication that entire capacity used is with has more contribution from the premium products. This makes more sense for us. To to answer a question that if I can quantify what is the contribution in growth from volume and what is the price is practically not possible.
- Praveen Sahai:** Next thing I just wanted to clarify you mentioned there is no price hike in this quarter, right?
- Bharat Mody:** That is right.
- Praveen Sahai:** Secondly I have question related to as you had mentioned there is pay commission happened, there is pay revision and that is going to give some rise in the demand as well, so can you give any

sense the last time the Sixth Pay Commission how that is actually planned out with commissioning of Sixth Pay Commission?

Bharat Mody: That happened about few years back and therefore to really quantify those data in state of an economy prevailing then and compare with current economic scenario can only be an academic exercise. Today's ground realities are different with consumer taste and preference changing besides forward looking more towards life style improvements. this trend is seen as emerging factor in affordable housing. As we see the market trend, there are upper lower and upper upper, both the products are getting more and more absorbed.

Praveen Sahai: So you mean to say in the affordable housing as well without diluting our margins the demand will come and we will grow accordingly?

Bharat Mody: I mean that is what as of now looks as on a ground reality. This is sustainable as well with the government also has been pushing as politicization and for good reasons that everyone should have house by 2022

Praveen Sahai: Is that not affordable housing will dilute our margin somewhere.

Bharat Mody: Sorry come again please

Praveen Sahai: The affordable housing, if the demand is coming from the affordable housing more, is not demand for more of the lower end products rather than?

Bharat Mody: When we talk about affordable housing which ranges anyway from one bedroom to two-bedroom apartment. We are not talking about those who really migrate from the slums or do not have a sanitation facility at all. People who have gone for a betterment of life and where we are talking about 20 lakhs, 25 lakhs, 30 lakhs apartment in a tier 3, tier 2, tier 4 towns.

Praveen Sahai: Got it and lastly the number on the power, oil, fuel expenses basically I will see this quarter as a reduce significantly comparing to the last quarter, so that quantum will continue?

Bharat Mody: Commodity price moves down wards so on Oil and Gas price will also stabilize around US \$ 4 to 50 range Our spending on energy cost now is also well under control. this hopefully is likely to continue for a while is number one, beside this our process parameters that we have experimented for an improvement and betterment also is saving a lot of energy cost on that part, which is an achievement by us.

Praveen Sahai: Thank you Sir. Thank you for taking my question.

Moderator: Thank you. Next question is from the line of Sagar Karkhanis from Nirmal Bang Securities. Please go ahead.

Sagar Karkhanis: Thank you for this opportunity. We have an E-commerce platform, so just wanted to understand in our segment will we ever reach a meaningful contribution coming from the e-commerce platform, what are your thought Sir?

Bharat Mody: Honestly as of E-commerce has not really picked up that it can be considered as contributory division. Why we have entered into it you is part of our BRAND BUILDING process as more and more people who log in to such site will get re-registered on our BRAND. It reinforces what CERA in a Sanitaryware space is. It also allows people to make good comparison of price structure with competition and designs.

In small towns the dealers may not be able to physically demonstrate all the designs. The 'On Line' web sites do offer this virtual visibility and helps the decision.

There has been some trend that people who have been trying to switch on to an online buying pattern and as habit are trying to use that platform is a huge in number. may be if not now may be after three or five years down the line these may really pick up.

Sagar Karkhanis: Right that is useful Sir, thank you and secondly I wanted to understand Kerala being large market for us, how has been demand in Kerala and if you would break the demand in Kerala and rest of India?

Bharat Mody: The demands is steady, it has not shown any decline either and it has remained in line with what the 12% growth that we have been showing across. In some of the product it might have 15% or some of the product it may have 10%, but in general it does remain with overall trend.

Sagar Karkhanis: And any other specific market where you were surprised by demand growth as such?

Bharat Mody: As of now not because the demand is subdued, I would very candidly admit on that part, it has been some of the efforts that we have put is to really generate demand has paid us and we have this number of 12%. Our CAGR for last Five years is an around 28% to 30% compared to that 12% growth which is very moderate growth.

Sagar Karkhanis: Thank you Sir, best wishes, that is it from my side.

Moderator: Thank you. Next question is from the line of Manish Parekh from Vibrant Securities. Please go ahead.

- Manish Parekh:** Good afternoon Sir, I had one question on the competitive landscape, so can you throw some light on the Chinese competition, which we face primarily in vitrified tiles and secondly is that threat also in other products like Sanitaryware and faucets, so if you could just throw some light on that?
- Bharat Mody:** China is well known for dumping its products in Indian market irrespective of any product. In Vitrified tiles, this time has a protection from the government with an anti-dumping duty, pf around \$ 1.37 cents per square meter which comes to nearly about Rs.18 square feet, is a sizeable amount.
- Manish Parekh:** Correct, so in the absence of this protection of the government what would be the impact of that on our business in the sense, will it lead to a slower growth or will it lead to fall in margins or what would be the impact in the absence of government protection?
- Bharat Mody:** In absence of government protection the entire tiles industry will lose out on a competitive stand against China or for that matter from anywhere.
- Manish Parekh:** So this threat is not in sanitaryware and faucets?
- Bharat Mody:** Sanitaryware is not that because it is so bulky item and therefore the cost of the freight is so high, We generally import Sanitaryware form China under brand CERA which we market and distribute in India in high premium range. However in premium segment, freight cost as % to its value is lower. However such things are not viable upper upper, upper lower or in a mass .
- Manish Parekh:** Understood and the brand that as our own?
- Bharat Mody:** That is right.
- Manish Parekh:** Thanks.
- Moderator:** Thank you. Next question is from the line of Dharshit Shah from Nirvana Capital. Please go ahead.
- Dharshit Shah:** Just one question can you share how much was the outsourced revenue in our total revenues, outsourced products?
- Bharat Mody:** Can you come again?
- Dharshit Shah:** Sir can you share how much was the contribution of the outsourced products in the total revenue?

Bharat Mody: The Sanitaryware we have about 20% of volume, which fetches us at about 40% of revenue, and for faucets is 50:50.

Dharshit Shah: So in Sanitaryware 40% is basically outsourced this quarter?

Bharat Mody: Yes. that's right Tiles we have if I take Anjani Tiles, which is a very recent otherwise you have been completely outsourcing.

Dharshit Shah: Okay, got it, thank you Sir.

Moderator: Thank you. Next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Good evening Sir. Thank you for the opportunity. Just wanted to understand the market share if you could talk about the respective product, what would be our market share in the organised segment?

Bharat Mody: Sanitaryware we have a market share, which is about 23, 24%, and 23% plus. On a faucet, we are still much lower, we hardly have 2.5% of market share and when you talk about tiles we are a drop in ocean.

Achal Lohade: I understand, that is all from my side, thank you.

Moderator: Thank you. Next question is from the line of Rishabh Bothra from JHP Securities. Please go ahead.

Rishabh Bothra: Sir could you explain how do we pan out in terms of revenue in urban, semiurban and rural areas?

Bharat Mody: We have been a value for money product all along and our presence is more prominent in the tier 3, 4 or 2 towns. On the metros, generally we do have a noteworthy presence as we are more perceived as Value for money Products

Rishabh Bothra: But do we aim to reach there and in what timeframe?

Bharat Mody: Well we have been trying to premiumize our product line with a better designs and even with the supports of our European partner ISVEA we would be trying to position ourselves in the metros also in the time to come.

Rishabh Bothra: What is the margin differential between upper upper and upper lower?

Bharat Mody: Honestly there is no margin difference. The price is always adjusted that way.

- Rishabh Bothra:** Sir in terms of our revenue profile how many is coming from the dealer network and how many is from institutional sales, what proportion?
- Bharat Mody:** Well it is 50:50 and even if it is institutional does not make any difference to us because we always keep our dealers in the loop and he takes a call how much he would like to pass on to the builder or in institutions out of the incentive that he is getting.
- Rishabh Bothra:** Sir in this case how much would be from government and private is possible?
- Bharat Mody:** We have not been doing any direct business with the government. It is the dealer who would be doing and we may not be even aware about that part unless dealer shares that information.
- Rishabh Bothra:** Just that, actually, the question why I am asking is what kind of quantum if we get a tie up from smart cities from the government side in direct connection there could be huge volume scope, since you mentioned you are not aware dealer might be doing, but can that lead to be a higher proposition, higher utilization?
- Bharat Mody:** As yet not come to that kind of a volume or value even for the smart cities. This concept has to pick up momentum. We should be able to do more on this business channel once its takes shape.
- Rishabh Bothra:** Some tie up with the large consumption companies let us say for NBCC or some other players who are doing huge sides of housing projects, are we in tie up with them or some of the players?
- Bharat Mody:** We do not have a direct tie up. It is always dealers who in that territory would make a tie up with them.
- Rishabh Bothra:** Lastly Sir in case if GST is implemented will the unorganized players vanish or will the organised players give a tie up with them and bring them on board with organised player, how things will change?
- Bharat Mody:** The way, the fabric of our country is made up, unorganized sector is going to remain there, it will not completely vanish, but then currently the share that they have is almost about 50%. In Sanitaryware, in faucet they have more than about 60, 65%, which will get reduced.
- Rishabh Bothra:** So probably the unorganized player will supply to the organised as we may have JVs?

- Bharat Mody:** Very much possible, even their direct supplies also will get reduced. Overall when you talk about a scenario for next decade we feel that unorganized sector would be really restricted about 20% to 25%.
- Rishabh Bothra:** Sir GST would doing in volume expansion by what percentage or margin expansion by what percentage? The GST implementation will bring in volume or margin expansion by what percentage roughly?
- Bharat Mody:** We still have to experiment that part because how it is executed is what everybody is really looking forward to it, but I can give a difference. Today you know you have above 12% excise and you have 15% VAT, when the GST comes you know you will have about 17%, 18% there is a clear cut different about 10%. Now this 10% may not be a margin for many people and therefore this 10% difference, who keeps the share and whether can you pass it on or can you retain, would be all economic parameters that would really come into the fray.
- Rishabh Bothra:** Thanks a lot Sir.
- Moderator:** Thank you. Next question is from the line of Kamlesh Kotak from AMSEC. Please go ahead.
- Kamlesh Kotak:** Just Sir one point I wanted to have clarification on, your Anjani Tiles sells how the environment is? Is it completely routed through CERA or is it directly sold from Anjani, how is it?
- Bharat Mody:** It is completely routed through CERA, the entire production ATL is making is only for CERA and there is an arrangement of a transfer price. The complete production will be sold only through CERA.
- Kamlesh Kotak:** So that means whatever standalone revenue we have reported in this quarter that includes the transfer from the Anjani Tiles is it?
- Bharat Mody:** Exactly
- Kamlesh Kotak:** So in that sense, the topline already is capturing the revenue from the Anjani only that the margin, which is manufacturing margin, will be capturing the consolidated number, is it right?
- Bharat Mody:** Cera is getting materials at pre-agreed transfer price which has its margin. As for Investment and stake in JV company what u said is right.
- Kamlesh Kotak:** Okay and how much is it, any number on Anjani's revenue, if you can just share?

Bharat Mody: I told the first quarter where the production is getting stabilized, so this time there are no attractive numbers on that part, but may be as one more quarter goes, we will be able to share more numbers whatever that is your query could be on that.

Kamlesh Kotak: Sure, all right sir, that is it, thank you.

Moderator: Thank you. Next question is from the line of Samar Sarda from Kotak Securities. Please go ahead.

Samar Sarda: Good afternoon, Bharat Bhai. Three question, first on your tiles plant you said you would try and increase the GVT production and spend some cost on that, could you indicate like what cost could you spend in this year to change the product profile?

Bharat Mody: The estimations is anything between 7 and 10 Crores, we are still examining.

Samar Sarda: That is it, so will it also increase the production capacity or that will remain the same?

Bharat Mody: No we could marginally have a different kind of production capacity within the same capacity of 10,000 square meters.

Samar Sarda: The second thing was on your advertising expenditure while you guided for like roughly 4.5%, 5% of your topline to be that expenditure, FY2016 like again it supposed to be higher, we actually surprised positively by 2.6% on the publicity and advertising side, so it could be a big jump on the absolute basis also?

Bharat Mody: Generally we have a policy where we and budget it at around 4%. But as we progress in coming times we may even have lesser percentage or a slightly higher percentage as these costs keeping in mind and considering cost benefit ratio

Samar Sarda: Finally it is a little qualitative, any indication you might be able to throw on how your international competitors or international peers operating in India are doing with regards to some of them like started manufacturing units over the past few years, are they running on optimal utilisation or not?

Bharat Mody: As such all of them are on a very high product range and we do not compete them in most of our products..let us say examine Koehler. They have a very huge capacity, but majority of the capacity is for and catered to the entire Southeast Asian market including India. Duravit you know have a plant very near to Ahmedabad they hardly use about 40% to 45% of their capacities. Toto is also putting up a plant but we need to see and experience what capacity

utilization are they able to operate is number one and number two whether they will be catering only Indian market or they are going to would be going, the way Kohler has gone

Samar Sarda: So on our utilization since we are increasing a utilization by 0.3 million pieces this year, could we safely assume that because like we are already operating at plus 90% utilization, there would be some amount of volume growth also this year, given that our capacity is going to increase next year?

Bharat Mody: We have been using the full in house capacity. We have two kinds of capacities. One is our in-house capacity and second is outsourced from other plants. The we try to use our capacity optimally where we have the best contributory margins and the production value turns out to be higher. We book our capacity utilization with premium products. We try to outsource wherever the low value items domestically. This outsourced capacity is very elastic, we can always increase, decrease. We are now gearing up to further raise our capacity from 3 million to 3.3 by the year end, may be the fruits will come only in FY2018, but it is the ball has started rolling in terms of building capacities.

Samar Sarda: Fair enough Bharat Bhai all the best for the rest of the year.

Moderator: Thank you. Next question is from the line of Achint Bhagat from Ambit Capital. Please go ahead.

Achint Bhagat: Good afternoon. Just wanted to understand from you that now with the scale of business having increased and with rising complexity in competition how is CERA trying to differentiate itself from competition? So any initiatives that you would have taken in the way you hire your employees or you know distribution or logistics because as I see the debtor days and inventory days in your category is now close to 100, 110 days, so any ways that you know the company is trying to manage that better, just wanted your sense on that?

Bharat Mody: Basically how we differentiate is purely on a design number one secondly good product designs at very attractive price without compromising our margins and quality. This is one strategy that we have been trying to do it. We have been very fair and we have been very comfortable to our dealers, distributors in terms of our policies. We do not treat them, as you know as only a dealer or a distributor.. to be honest, they are our channel partners. Our approach has always been very friendly with them number two and number three the product mix that we have been trying to improvise further with a lot of experimentations that we have been doing in processes also is really coming to our hand in terms of improvising our margins. Now this is what is in our our control. When market as when it opens up, we will have more benefit from this.

Achint Bhagat: Yes, but my question was more from the back end processes Sir, so whether it is, because till about five years back till now your business has increased multifold right, so is it something that the way the business used to run previously, the hiring process, the way the employees are hired from the way the channel has approached from distribution standpoint because if I see now close to 50 days is your inventory and 60 days is your debtor days, so how does this come down because when I compare it to other building material categories it is fairly high, so anything, whether it is Kaizen process or TOC process, any process change which the company is planning?

Bharat Mody: This has been ongoing thing. I can further add that, we are now introducing SAP now. this will put all our systems in place as we grow. Number two; sanitary ware industry or faucet ware industry is slightly a specialized industry. We do not get a readymade personnel available unless they have worked somewhere in a competition which we always would know about it. We as a strategy have lot of in-house training program to help improvise our own skill and caliber. At the same time we have tried a fresher and have tried to groom them our ways.

Moderator: Thank you. The next question is from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari: Thank you for taking my question. My question is on the power cost. It has gone down by around more than 40% as compared to same quarter last year, so how much of it is because of gas price reduction and how much is because of operational efficiency?

Bharat Mody: Basically its Energy cost comprising of Fuel - Gas and Power cost put together. On a power front, we are almost self reliance as we generate the entire requirement for captive consumption say around almost 95% we generate ourselves. Our own cost comes around Rs.3.25 paisa unit as against another option to buy from the state electricity board would have cost us double.

#2, when we come to the gas cost, the international gas prices have been falling and therefore once upon a time where we used to pay about Rs.44 a cubic meter has come down as low as to Rs.27 a cubic meter and even on the GAIL front, we have administrative price mechanism available to us the price which we used to pay about Rs.12 a cubic meter has gone down to Rs.9.50 a cubic meter now. So this is also a saving, which is coming to our hand. At the same time, we have made a lot of process improvements, where we consume a lesser energy. So we consume a lesser energy and again whatever the energy that we are consuming is coming to us in a lesser cost has gone to contribute about 1.5% - 150 basis points as the saving purely coming from the energy cost, which is sustainable at least in a foreseeable feature of the next two to three years unless the gas prices internationally show up a different kind of trend.

- Nirmal Bari:** Sir how much of our gas requirement is coming from the standalone wells of GAIL and how much is from the open market?
- Bharat Mody:** It is 50:50.
- Nirmal Bari:** That is all from my side. Thanks.
- Moderator:** Thank you. Next question is from the line of Omkar Ghugardare, an individual investor. Please go ahead.
- Omkar Ghugardare:** I would like to know the dividend policy of the company. Have you articulated any dividend policy?
- Bharat Mody:** We do not have an articulated or a structured dividend policy, but as a policy what we have done that we will be raising our dividend payouts, which we have been steadily doing it for last four, or five years, you must have witnessed that part number one. Number two, we are almost a debt-free company and therefore the policy has remained where we plough back whatever earnings that we have in building capacity and incurring capex with accruals only. It is not only the dividend, which is very important, but how we have grown for the last five years from what we were before five years or seven years which again is reflected in the stock price.
- Omkar Ghugardare:** Right. One more question. Can you throw some light on succession planning of the company?
- Bharat Mody:** We are a very professionally managed the company. Our chairman, Mr. Vikram Somany is very active and he is very hale and healthy. So in the foreseeable future, he would continue to really look after and guide the company the way it is. His daughter Ms. Deepshikha Khaitan has been inducted to the board about a few years back and now she has been promoted to a Vice Chairman and we have Mr. Atul Sanghvi who is right with me here also he is Executive Director, who has been with the company for over 20 years and he has been knowing absolutely there are all professionally managed people. We have also Mr. Kothari who is veteran of Sanitaryware industry and is actively participating in management of the company as CEO. In the foreseeable future of next five years we not feel or do not see any kind of a major issue coming in succession.
- Omkar Ghugardare:** The last question, last five years you have grown upwards of 25% on the revenue front. The growth has slowed down from last say one and a half years. So, when will you say that we would return to that kind of growth? I know the market...



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Bharat Mody: our endeavors are always to reach back to more than 25%.. but the market dynamics have to support us.

Omkar Ghugardare: So what would you say, would you be able to grow at 25% say in the next two or three years?

Bharat Mody: To be very reasonable, we cannot really estimate those kinds of a growth, but then our efforts are always in those directions.

Omkar Ghugardare: Thank you. Thanks a lot.

Moderator: Thank you. As there are no further questions, I would like to hand over the conference over to Mr. Amit Srivastava for his closing comment.

Amit Srivastava: Thank you. On behalf of B&K Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

Bharat Mody: Thank you all.

Moderator: Thank you. On behalf of B&K Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.