



“Cera Sanitaryware Q2 FY2016
Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to Cera Sanitaryware Q2 FY2016 Earnings Conference Call, hosted by Asian Market Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your 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: Thank you. Good morning everyone. On behalf of Asian Markets we welcome you all to the 2Q FY 2016 Earnings Conference Call of Cera Sanitaryware Limited. We have with us Mr. Bharat Mody, Strategic Adviser and Mr. Atul Sanghvi, Executive Director representing the company. I request Mr. Bharat Bhai to take us through the overview on quarterly results and then we shall begin the Q&A session. Over to you Sir!

Bharat Mody: Thank you so much Kamlesh Bhai and I welcome each and every participant who joined this conference call. Small corrections Mr. Atul Sanghvi could not make it and I would be solely handling the 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.

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I would now give you an overview of our performance for the half year ended on 30th Sept 2015.

Our growth was around 16% in top line and around 14% in the bottom line for the first half. Our annualized EPS stood at about 51.59.

I would suggest to come straight on questions and I would try to address these in best possible ways. I would invite the questions from participants in a sequence which either AMSEC or the coordinator as designed.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Abneesh Roy of Edelweiss. Please go ahead.

Abneesh Roy: Congrats good set of number Sir. My first question is in the first quarter you had mentioned demand conditions are quite challenging. Any change to that?

Bharat Mody: Honestly, the situation has not drastically improved. As a matter of fact the situation still continues where the market remains subdued more so for the reality and new construction despite this, we had made all our endeavors and worked on strategies which helped us at least where we could achieve and to continue with reasonable growth rate for the quarter and the first half of FY 2016. We also are trying to balance our growth and the margins in a way where we can optimize on few things.

We grew by about 16% for the entire first half. In fact honestly the second quarter has shown slower growth compared to the first one but we hope that the Q3 and Q4 generally would be better for our kind of an industry. We hope that we should be able to make up for whatever shortfalls in the Q3 and Q4.

Abneesh Roy: In your case this festive related demand is that what you are betting on because when you are saying in Q3, Q4 demand will recover and this year Diwali full impact is in Q3. Are you betting on that? So how big is that thing this year?

Bharat Mody: Generally entire industry we depend on is a construction industry and if I really give you a slight overview about our market share we have almost about 42% market share coming from the southern India

Now in the southern India the monsoon sets slightly early around end of April or may be in the month of May. Again when the monsoon really advances it catches up even in the second quarter in the rest of the country and therefore these two quarters generally remain subdued for the construction industry. When the monsoon comes to end, the Q3 would start and also the festival season. People also try to fulfill their wishes in terms of going for better living and the construction demand too remain in better swing. So Q3 and Q4 in general are better than Q1 and Q2.

Abneesh Roy: Right Sir in Q1 you said North India the demand is slower than most of the other regions. In Q2 are you seeing any change to that?

Bharat Mody: Well as a matter of fact Q2 North India has already picked up compared to what it used to be. There have been some revamping in terms of our people who have been handling CERA's sales and marketing earlier. We had to change certain strategies there in terms of how we approach the customers. We have really taken up a lot of initiatives in terms of how we present our products to the end users and the entire team has been trained now to gear up in terms of the new challenges. North India also is responding well to the strategies.

Abneesh Roy: So you are saying this quarter mostly all regions grew at almost similar kind of rate. There is no big alert?

Bharat Mody: Yes almost. There is always a difference between one region and the other region. However, our Brand Perceptions are pretty strong in southern region which in turn helps us to grow much faster compared to rate at which we would grow in the other part of states. Despite these the growth in general and market response has been almost uniform.

Abneesh Roy: Rural India is a big risk currently for all consumer companies including yours. How has Q2 been for rural part of your demand?

Bharat Mody: This exactly what slightly pulled us down in terms of our growth achievement. We had in Q1 almost about 19.5% to 20% growth and if I really say in Q2 we had a growth of at least about 13%. Now rural India did really do well and probably was on a backdrop and therefore we were not able to really push it there but we are very hopeful that Q3 when the festival season starts now and there is reasonably good monsoon in some of the good parts of the country which should open up the demand.

Abneesh Roy: What is the split Sir rural is how much percentage?

Bharat Mody: As a matter of fact we are stronger in Tier II, Tier III, and Tier IV. In metros generally we are not very strong because the brand Cera is perceived as a value for money brand. Therefore when you have an apartment in Mumbai - say, two bedrooms which may cost around, RS.2.5 Crores in a suburb, the cost of a sanitary ware compared to those kind of a huge cost of the apartment is, very small component. Therefore the builder also would try to sell more of a global brand there but we are pretty strong where the value really matters to the people and end users and in Tier II, Tier III, Tier IV towns and the rural India is responding very well. So our split is we are have about 15% presence in metros or semi- metros cities, but the rest of the things almost 80%, 85% is going into the Tier II, Tier III and Tier IV towns.

Abneesh Roy: My last question is more from three years, four years perspective. I will keep it short. Essentially one paint company, Asian Paints has gone into this space from three to four years. Do you think they can takeaway some market shares and second is online is I am seeing lot of sales and promotions in your segment also starting in the online. I am seeing one plus one offer 30% off on some of the sites is that also threat from a three to four year perspective?

Bharat Mody: Well it would be too premature to really conclude either way because I would definitely say yes online sale transactions in general are picking up for a lot of consumer goods but for sanitary ware; nor for the faucets. This is because in this country consumers would really like see goods before they buy . they want to see the products; experience it and many times and get satisfied with dealers' assurances on performance and then buy the product. In a decision to buy mobile-phone or in a sort of a other kind of white goods this is very much possible that 'On-line' transactions have increased many fold but for sanitary ware or a faucets these would be slightly difficult for them to really take a buy call. But yes, the trend is on for 'On-Line shopping' and therefore I would not surprised over next three or five years, it catches up.

Abneesh Roy: Paint Company Sir?

Bharat Mody: Paint companies' product are more of a standardized nature and therefore for a paint company it comparatively easy for going online

Abneesh Roy: Sir my question is one paint company has acquired SS, Asian Paints. From there do you expect for next four years some kind of market share loss for you?

Bharat Mody: They are a very big player but for them, does this business really make that big importance ? that is number one. And generally people would always try for a tested products. Sanitaryware and faucets are so important where last thing that customer would ever accept, leaking in bathroom and therefore you need a lot of technical input and process parameters to be settled on these products before one really takes the call on but yes Asian Paints in in the game and therefore they are a big time players no one can ignore.

Abneesh Roy: Thanks a lot Sir it was very useful.

Moderator: Thank you very much. We will take the next question from the line of Mr. Vikas Mantri from ICICI Securities. Please go ahead.

Vikas Mantri: Good morning Sir. Congratulations for good growth. Sir, just two questions one can you help us understand the value volume growth in this quarter and how do you see trend forward? Are you seeing more of volume growth going forward? Second, can you help us understand the Tiles

ventures that we have done the promoter what he has been and what will be the outlook of this project that we are getting into?

Bharat Mody:

I will answer your first question. I will give you a breakup of our top line first. We have total business from sanitary ware of about 63%. Out of this 63%, 14% essentially is from allied products like PVC cisterns, seat covers, and some of the fittings which essentially go with the fixing sanitary ware.

We have 21% business coming from faucetware and we have almost about 13% business coming from tiles and the balance 3% is coming from a wellness range of products which comprises of shower panels, bathroom cubicles, shower partitions etc., This shows a steady maintaining of a growth of sanitary ware. Yes, We are growing much faster in faucet business now. We have also raised our capacity of faucet from 2500 pieces or 7200 pieces per day and currently we are using almost about 86-90% of that capacity. We hope that okay by the end of the year FY 2016, we should be touching almost about 95% of the capacity utilization of the increased capacities that we have now. So there is a big jump on a faucet as a market for our growth to really rest on. Sanitaryware is making a very steady growth where we have raised our capacity from 2.7 to 3 million pcs. per annum. We are further raising capacity from 3 million to 3.2- 3.3 at a same location. We are confident to utilize the increased capacity to around 95%- 100%.

Second, in the business of Tiles me recently we have entered into a MOU with Anjani Tiles Limited in Andhra Pradesh -South India. They are putting up a project and we will be having been able to strike a deal with them for a majority stake, we will have 51% control. we will take up complete Marketing and Sales through our distribution network across Pan India and our J V Partner would concentrate on production and quality. With a combination of their experience and our experience and expertise and the brand image that we carry we hope that we will be able to scale up the production further two- three times in a very short time. In fact currently our tile business is almost more than almost about 1.2 times the capacity that we are putting. So we do not worry about the market on tiles. On the contrary this is going to improve our margins on tiles as well.

- Vikas Mantri:** Sir, can you help us understand the experience of the Anjani Tiles in this regard?
- Bharat Mody:** Anjani Tiles promoters are very experienced people. They already have a tile plant in a tie up JV arrangements with 'Kajaria'. And they have been making tiles for Kajaria for last about three to three and a half years now. They are putting up another plant where we could strike a deal with them. Kajaria is basically for a ceramic wall tiles and what we are going to go with them is for a floor tiles.
- Vikas Mantri:** When do you think will be able to meet full capacity by production and then plant?
- Bharat Mody:** We hope we will be able to commission the plant by March 2016 and commercial production should start immediately thereafter. Currently our sales is more than what the capacity that we are trying to put up in JV .. we will be using the capacity almost 100%. Once we stabilize, we will scale up that further as well.
- Vikas Mantri:** Thank you Sir and best of luck.
- Moderator:** Thank you very much. We will take the next question from the line of Anshuman Atri of Espirito Santo. Please go ahead.
- Anshuman Atri:** Congratulation Sir for a good set of numbers in a difficult environment. My question is with regarding the tile business. How much margins are we currently making and how much improvement will it be after this?
- Bharat Mody:** The tile business as of now is a very competitive business. Currently we are outsourcing. We are outsourcing from majority of our tile product categories where the margins are in a single digit. The fact is it not that only single margin that matters but if I say this single digit if we turn it over, let us say, about four times in a year, we end up with making a reasonably good margin and the return on our investments. As long as we were outsourcing, the EBITDA does not really matter . What is important is to us is how we really have a better return on investments. When we have made an investment in a JV that also the same logic would continue that how do we really the best of the return on our investments. There are two aspects on which we are doing. One when we entered into a JV, we will have an assured quality; we have an assured production program as per our market needs, which at times we were vulnerable while we are outsource. So this is going to be taken care of and second thing since it is going to be our own plant we will have a more production efficiencies which are also contribute toward better margin.

Anshuman Atri: How much would be the contribution from Cera? How much will be the contribution in terms of capex?

Bharat Mody: The size of the project currently is estimated around Rs.68 Crores or Rs.70 Crores of Rupees, which will have a mix of a debt as well as equity. We would try to freeze equity between two of the partners about 36 Crores and the balance would be raised by long-term debt.

We have 51% stake as of now, we will be investing about 18, 19 Crores. We also have plans to really put up another project of a tile manufacturing in Rajasthan where the Government of Rajasthan is putting up a ceramic zone. So the same partner hopefully would continue and have another plant there in a short while.

Anshuman Atri: Sir, what would be the capacity for this?

Bharat Mody: Capacity is 10000 square meters per day.

Anshuman Atri: Just one last question on sanitaryware part. The share which you have given of 63, 21, 13 and 3 what was it last year?

Bharat Mody: This trend has been continuing more or less for the last about nine months or almost about 12 months. Prior to that it used to be more in favour of the sanitaryware because, we did not have a enough capacity for a faucet ware - which was limited, we did not have tiles, we were just venturing into it. So at that time, if we take about a year and a half back, the share of pure sanitary ware was about 61% and another 14% was from allied products. So that was making 75%, which now has gone to 63%. The reason being the faucet has a larger play and in our opinion faucet is a market, because faucet, there is only one single player who dominates the entire market - 'Jaguar' and honestly very candidly admit in terms of ranking it is one to ten is 'Jaguar' ! Every other player including CERA rank after 'Jaguar' market share. But then there is a lot of scope for brand Cera. Our brand can really advance its number into top Five and we really are very hopeful how the market is responding to our products very well. So we see a brighter future in faucets.

Anshuman Atri: Thank you Sir. The full year target remains at 20%?

Bharat Mody: Well we hope that it should remain about 18% to 20%. That way we are trying to really work hard.

Anshuman Atri: Thank you Sir for answering my question.

- Moderator:** Thank you. We will take the next question from the line of Sameer Tulsyan from JM Financial. Please go ahead.
- Sameer Tulsyan:** Thanks for the opportunity. Sir, what has been the growth in terms of segments YOY like sanitaryware, faucets, wellness and tiles, YOY growth for the quarter?
- Bharat Mody:** If you really see in terms of the percentage, faucetware has been growing at much faster, which has registered about 44% growth, and sanitaryware is growing about 8% to 9% growth in volume as well as in terms of value- growth. Same iss 40% to 44% is for faucets. In tiles business we are growing almost about 16%. Wellness product is something where we are into the market and that is only 3% so it does not really big % of the market.
- Sameer Tulsyan:** I missed on the faucets capacity utilization; you said that is around 100% right now, correct?
- Bharat Mody:** No, it is 90%, 88% to 90% now.
- Sameer Tulsyan:** What would be the current capacity like it is fully?
- Bharat Mody:** 7200 pieces per day.
- Sameer Tulsyan:** It is at 80% to 90%, we are losing say around 97% to 98%?
- Bharat Mody:** Almost 95% we should be achieving before we close the year FY 2016.
- Sameer Tulsyan:** We are already one month into the quarter, so how do we see October panning out for us?
- Bharat Mody:** October response has slightly improved. There are some positive movements about the festival seasons, This has also prompted us to take a price rise. Honestly, we have not taken price rise for almost about 14 - 15 months I would say to be honest and we were absorbing the cost and trying to balance between growth and the margin, but now this demand which has opened up also is giving us a lot more confidence where we could take a price rise across the products, anything between 3% and 7%. These were also factored to really improve our margins for the coming quarters, but then when we take a price rise now is going to be effective from December 01,2015 because all the orders which have been booked at the previous price we will be delivering first, Only fresh orders for which the delivery would start from December onwards, the price rise would be applicable.
- Sameer Tulsyan:** Any particular reason for increasing working capital days like do we see increase in inventories and debtor days?

- Bharat Mody:** Well there are no particular reasons. The market is subdued and therefore. Honestly we have been very tight in controlling working capital. We could have grown even with 25% or 30% had we been slightly liberal on our working capital with the dealers and the distributors but we wanted to be very tight on that part, which in fact limited our growth also.
- Sameer Tulsyan:** Because of this subdued growth, have there been any price cuts also?
- Bharat Mody:** No, there were no price cuts. We did not take any price cuts but we absorbed every cost push, which also had a bearing on our margins slightly.
- Sameer Tulsyan:** In this quarter we see the other expenditure and staff cost has risen. Is it due to any particular reason might be new faucet plants?
- Bharat Mody:** We have raised capacities besides, we are opening up new territories for selling our products. We are also going strong into new territories now and also you know the capacity that we have raised for faucet also has increased the manpower in the sales as well as in the production and therefore the manpower cost is on an increase.
- Sameer Tulsyan:** Sir, these should be taken at stable levels or we should take up further increase from here on?
- Bharat Mody:** This should stabilize. We are going to raise utilization of a capacity to almost about 95% for faucets, so we have taken that in to consideration; barring that there could be marginal increase of around 5% towards contingency, but otherwise more or less all the labour force as well as the staff, we have recruited would be sufficient for taking the production capacity of faucet to 95% utilization.
- Sameer Tulsyan:** On the capex side, what was the gas arrangement in this new plant, Anjani Tiles?
- Bharat Mody:** There it is basically coal based gasifier. It is not a natural gas, but in South India, in Andhra Pradesh, this is absolutely legal. This is allowed.
- Sameer Tulsyan:** The new tiles capacity which you are planning in Rajasthan like what is the timeline and the capacity?
- Bharat Mody:** Well, it is going to take at least about a year or year and a quarter down the line, because Govt of Rajasthan is still in the process of freezing the ceramic zone which will some advantages, we already have committed ourselves in terms of booking a land there, and when we are able to use the Andhra Pradesh Plant with the full capacity and scale it up in another six months or about a

year's down the line at the same time, we would start initiating in setting up plant in Rajasthan as well.

Sameer Tulsyan: Sir, what would the capacity and type of plant?

Bharat Mody: Currently 10000 square feet per day in Andhra Pradesh plant.

Sameer Tulsyan: Rajasthan?

Bharat Mody: Rajasthan also would go to begin with the similar capacity. It is more of a logistic game and therefore we need a second location for tiles.

Sameer Tulsyan: Thank you.

Moderator: Thank you very much. We will take the next question from the line of Mahesh Raut from Equirius. Please go ahead.

Umesh: Congrats for a good set of numbers. Sir, if I am not wrong, generally capex for tiles industry for Morbi is around 50 Crores per MSM. So, looking at the capacity of us with 3.65 MSM so, 68 Crores of proposed capex looks slightly on a higher side. So, any possible reasons behind this?

Bharat Mody: Morbi you cannot compare because Morbi has a different kind of methods of how they do a business. I would not like to comment on Morbi because that is not exactly a part of our agenda., But as a natural corollary you know I can always say we are going for the best of the machineries and equipment from segment. We have the best of the land, where the scalability of production available It is about three or four times. That time, the economy of scale with a lesser of capex would really come to our benefit .

Umesh: So at peak capacity, what kind of turnover do you expect out of this capacity?

Bharat Mody: 10000 square feet of per day the capacity utilization about 125 Crores plus. It depends upon what kind of product combination that we go for. If we go for a soluble salt then it will be a lower one, if we go for GVT, and double Charge with NaNo Coatings the prices will be higher. So, we are trying to find a good equilibrium between the combination of the product basket and then we will try to balance it out.

Umesh: So, apart from this capex, any new capex, or total capex you are looking forward to FY 2016 and FY 2017?

Bharat Mody: Well, we are also trying to raise our current capacity of sanitary ware at the same location to 3.2 to 3.3 pcs. per annum and besides there are maintenance capex also. We have a capex plan which is a rolling plan for the next three years about RS.170 - 180 Crores, part of which as we really go further in building manufacturing capacity. It is not possible to really say how much we will be doing it, but we are committing one by one. We are saying, we are going for a tile project I, we are going for a tiles project II in Rajasthan. We are raising mfg. capacity for sanitaryware.

As an entrepreneur we are also trying to cover up the land which is adjoining to our existing factory here at Kadi, so there are a potential where we would scale up our production further, so this is an ongoing process.

Umesh: Sir, coming back to our plants to set up a center at Middle East, so how do we see ramp up happening over there? What are our plans to target those markets?

Bharat Mody: Basically what we have currently done is only we have opened up to Warehouse facility in Middle East in Dubai. We as of now, we have no plans to really commence any manufacturing there. With this arrangements we would try to focus more on export market for sanitaryware as well as tiles and the faucets. We have taken a large space in a free zone where with a local partner there who is already into this line of business for last 15 years. He is a very strong with dealer and distributor and is already in the business building material. He was seriously interested in promoting our products which has given a shape having a tie up. So we are trying to promote our product in Gulf now and gradually as we progress we will take a call how do really go further on that.

Umesh: Thank you very much Sir. That is it from my side.

Moderator: Thank you. We will take the next question from the line of Girish Chowdhry from Spark Capital. Please go ahead.

Girish Chowdhry: Good morning Sir. I just have question on faucets business. Currently now that we are operating at 90% utilizations on increased capacity, I just wanted to know your thoughts on how the margins have planned out if I have to ask like, have you seen margin expansion in the faucets business.

Bharat Mody: Very much. It is a very valid question and we are really aligning on improvisation of our margin, because of the economy of scale number one. Number two, we have come out and developed new designs. Even the time for introduction of a new design also has been minimized and has been cut down with introduction of a new computerized-aided technology, where the prototypes are developed so fast for market to respond on designs and approval. So development efforts of a new products designs in a faucet ware is a more automatized and computer-aided now. This is

coming to our benefit where we are able to offer more designs faster as compared to the competition and at a very reasonable price with reasonably good margins.

Girish Chowdhry: If you say quantify the margins in faucets and how it as?

Bharat Mody: I am extremely sorry as a policy management does not really share the product wise margin, but I can always the margins are reasonably good there. They are in double digits.

Girish Chowdhry: My second question is on you said that you are proposing may be you will put up a new plant in Rajasthan once the government is giving new regulation from a ceramic zone. So will this be a JV?

Bharat Mody: Well, it will be a JV basically, the primarily only for a tile.

Girish Chowdhry: My last question is specifically on your new tiles JV, so how will the margins looks like? First of all the agreement is at cost plus fixed margins or is at just sharing between?

Bharat Mody: It is at the fixed transfer price based on the cost structure that we jointly have analyzed. We will be buying an 'X' kind of a quantity at a certain price, leaving a reasonable margin for the JV Company as well as for us so that after deducting all the marketing expenditure will still make a reasonably good margin.

Girish Chowdhry: So what are those margins like?

Bharat Mody: I just said we do not share those margins, but the margins are reasonably good and that is better than what we are getting from the outsourcing.

Girish Chowdhry: Also this will have impact on freight, because now which?

Bharat Mody: Exactly this is one of the biggest advantages, so when you really go and try to save a cost freight an element which is very high element. When we y transport from Morbi to the southern market. Now, this is where the savings is in terms of the cost for CERA, besides the cost of production and its economy.

Girish Chowdhry: Sir, I have one more question, also you have mentioned that you have taken price increased to the extent of 3% to 7%, so is this that cera is only brand which has taken out the competition?

Bharat Mody: We have been leading on that price and I believe that competition is waiting only for us to take a lead.. now we have come across competition / other players are also trying to take a price rise, but we have already taken and people are likely to follow us.

- Girish Chowdhry:** Thanks a lot Sir.
- Moderator:** Thank you. We will take the next question from the line of Achint Bhagat from Ambit Capital.
- Achint Bhagat:** Good morning. Couple questions from my side. Firstly, you mentioned that real estate is closed, what proportion of your overall sales is directly in real estate?
- Bharat Mody:** Honestly, it generally goes for the new construction. We have been always saying one thing that it is very difficult to get exact figures of what goes for renovation and what goes for new construction, but as far as we are concerned it goes always for a new construction. In this country, you know, to get the separate data for renovation of a bathroom, no reliable data is available and. I can give a very classical example. There are certain kind of new apartments which are getting constructed where as a buyer, getting a bathroom which is given by the builder, he is trying to e-do with the help of your own architect or any interior designer. When you break open that part and you re-do the bathroom. I am not really able to say whether that new redoing of a bathroom is a renovation or still a new construction. There are more of these kinds of thing which is happening nowadays.
- Achint Bhagat:** Why I was asking this question is that real estate slow down something which is well documented now, but the sales if I would look at the trajectory of sales not only your company, but multiple building material companies in the last three, four quarters has fallen sharply. So I just trying to see that what is changed in these three, four quarters, because whoever I speak to otherwise as a real estate is not more than 15%, 20% of our overall sales, so we are just trying to see what is the driving factor here?
- Bharat Mody:** In fact, real estate is what we depend on. We do not compare our industry with paint industry where you know probably you already living in existing house and redo that part. We generally depend on new construction and therefore this real estate industry which is currently seems to be carrying a lot more excess inventory almost at every place depends upon where you are and therefore there is a slow down. These factors do affected us.
- Achint Bhagat:** Even housing Tier 2, 3, 4 towns which is not real estate and more individual home building, you see a slow down there as well?
- Bharat Mody:** That is not exactly. These where we are getting our business from and that slow down is not to that intense and therefore we are not getting impacted like we would be getting impacted with the slowdown in the metros and the larger cities where there is a lot of excess inventory.
- Achint Bhagat:** What proportion of your overall sanitaryware sales let us say in rural towns?

- Bharat Mody:** Mostly we could say more than 70%, 72%.
- Achint Bhagat:** It is rural?
- Bharat Mody:** I would not say rural instead of Tier 2, Tier 3 towns.
- Achint Bhagat:** Just one last question from my side. In terms of your advertisement expenditure and your distribution expansion etc., how is the company approaching that? Are you continuing to maintain your advertising expense?
- Bharat Mody:** We have budget for about 4% to 4.50% on the target and turnover that we do it.
- Achint Bhagat:** 4 to 4.5% is it?
- Bharat Mody:** That is right.
- Achint Bhagat:** You have maintained that?
- Bharat Mody:** You are maintaining that part.
- Achint Bhagat:** Distribution addition Sir, is there run rate maintained?
- Bharat Mody:** Its an on-going process, our distribution is increasing, because we raised our mfg. capacity, with this we are try to enter a new territory, we are also intensifying further our distribution channels. Where we have strong we are trying to intensify, we did not have or less presence, we are trying to improvise our presence.
- Achint Bhagat:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Disha Seth from Anvil.
- Disha Seth:** Good afternoon Sir. I just wanted to know what proportion like sales composition are you looking and going in a medium term like from tiles?
- Bharat Mody:** Three to five years, the sanitaryware will have close to about 55%, 58% from what we have 63% now. It will slightly reduce and faucet will increase and tiles would increase too, because these are on a lower base and therefore to register a growth comparatively is much faster for us. We are now a complete bathrooms solution provider though our name of the company still remains that are sanitaryware, but we have gone beyond sanitaryware, , we are into faucets in a much larger way, we are into tiles now.

- Disha Seth:** Margins would be in the range of in the medium term?
- Bharat Mody:** We hope to maintain EBITDA margin of about 15% plus. We hope to do that yes. It all depends about market dynamics and economic conditions, but that is what would target about.
- Disha Seth:** Just wondering because of faucet and tile proportion going more?
- Bharat Mody:** Sanitaryware has higher margin obviously and faucet also when we have our own designs which are getting better response, we have economy of a scale, we are trying to improvise that on tiles also when we have JV and we have a lot of saving on a freight cost would also come to our benefits. We hope to maintain a much better margin.
- Disha Seth:** Medium term what sales growth do you target?
- Bharat Mody:** CAGR of over the next three years could be anything between 18% and 20%.
- Disha Seth:** That is it from my side. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Attek Balesaria from Capital Metrics.
- Attek Balesaria:** Good morning. Congratulations on good number. I have couple of questions. Sir first of our quarterly margins have come down to 12.9% on EBITDA terms? It has been very low since I think last 12 quarters. Is there any particular reason for that Sir?
- Bharat Mody:** The reason, there is a cost push on every count and we have to absorb that even we did not take a price rise, cost push also has slightly bearing from a dollar rate, because we import some of those goods in sanitary ware in high range premium sanitaryware as well as in the lifestyle range of a product.
- Attek Balesaria:** One more thing Sir, what would be your expected EBITDA margins on the tile plant, would it at least be in double digit?
- Bharat Mody:** We generally do not share individual product margins, so I would not like to answer this question, because I am requesting all the participants, that this is the management policy but we should be able to maintain overall margin with the combination of a product basket that we have, of around 15%.
- Attek Balesaria:** Sanitaryware is growing at 8% to 9% I have seen it is there?

- Bharat Mody:** The volumes and price all put together. We also would further try to plan to grow that further, we are raising capacity, we are trying to premiumize our product where the volume does not really matter but my realization matters more, would be going up and the margins also may improve.
- Attek Balesaria:** One more thing Sir on how Somanji said in one of the interviews that we have been gaining market share, so is that the same or overall industry you see growing?
- Bharat Mody:** He did say that on our market share. We are gaining market share from two segments; one from competition and from unorganized sectors.
- Attek Balesaria:** Overall organized sector itself is growing then?
- Bharat Mody:** That is very right.
- Attek Balesaria:** Last thing Sir, by December you said the price increase will come into effect right?
- Bharat Mody:** We already had announced the price rise and therefore any fresh orders usually get delivered. Generally delivery time takes about three to six weeks, so when I said almost at the end of October the delivery would start from almost November and/or may be December onwards. The price rise will become applicable in all practical purposes from December deliveries.
- Attek Balesaria:** That means the EBITDA margins will be in slight push this quarter as well?
- Bharat Mody:** This is exactly what we are hoping for, yes.
- Attek Balesaria:** Thank you very much sir.
- Moderator:** Thank you. We will take the next question from the line of Prashant Kutty from Emkay Global.
- Prashant Kutty:** Thank you for taking question Sir. Just first of all couple of clarifications, you just gave us the growth rates in terms of all the segments, you just say that faucets has grown by 44%, sanitaryware is about 8%, 9% and tiles is 16%. This is the first half numbers or the second quarter number?
- Bharat Mody:** This is second quarter number.
- Prashant Kutty:** Because the reason is that, when I am just trying to do the math of the second quarter, then actually arrived at about 16% kind of growth rate number which is why I just had that clarification?

- Bharat Mody:** I can elaborate further on that when I would probably individually I can give you the substantiation on this where I have not ready data at the moment.
- Prashant Kutty:** Surely Sir, second thing is if you look at you just said that we have taken price increase of about 3% to 5%.
- Bharat Mody:** 3% to 7%.
- Prashant Kutty:** 3% to 7%, okay.
- Bharat Mody:** Sometimes it has gone even to 9% to 9.5% also in some of the product range, but in average would say about 3% to 7% is the fine figure.
- Prashant Kutty:** This is the usual price increase which you take a year right that is what I would?
- Bharat Mody:** Generally we take price rise twice in a year around 3.5% to 4% to 5%, but we have not taken the price rise for the last 15 months. It was much awaited price rise because of the cost push and now that is revival in the market t we experience, we also thought that it is time that we can take a price rise now.
- Prashant Kutty:** Sir just one more thing, if you could just tell us what is the sanitaryware industry currently growing at and what is the faucets industry currently growing at?
- Bharat Mody:** Sanitaryware is growing at about 12%, 13% in terms of volume and value but last these are very old figures.
- Prashant Kutty:** I am just asking current trend actually in fact?
- Bharat Mody:** Current trend there are no authenticated thing available. These are from the association nor from the government agencies, but as of now everybody who is into the business has been feeling that okay there is slow down on that part.
- Prashant Kutty:** But is it a safe thing to say that sanitaryware and faucets would be growing at a similar rate?
- Bharat Mody:** In fact faucet would be growing at much higher pace, because the unorganized sector has dampened and therefore the growth would come only from people who really graduate from unorganized to organized sector whereas sanitary ware has been slightly ahead in terms of the time with that kind of change.
- Prashant Kutty:** Let us say the unorganized segment still be at least about 50%, 55% is it right?

- Bharat Mody:** Probably more.
- Prashant Kutty:** Just one question on the power and fuel cost, there is a slight increase in the power and fuel cost was anything to look into it over year?
- Bharat Mody:** Sorry, can you come again?
- Prashant Kutty:** Power and fuel cost, there is slight increase over here on a YOY basis, anything specific to look into it?
- Bharat Mody:** There is no increase. As a matter of fact, the production has increased and therefore it has done in absolute amount.
- Prashant Kutty:** Sir lastly one thing if I just know what is the distribution addition in the quarter and what was it last year?
- Bharat Mody:** Addition ongoing process last year it is used to be about 1400 distributors and 14000 retailers and dealers, now these are gone into 1600 and 16000.
- Prashant Kutty:** Thank you Sir.
- Moderator:** Thank you. We will take the next question from the line of Bobby Jayaram from Frunze Investment. Please go ahead.
- Bobby Jayaram:** I have few questions. The first one is given such subdued demand why are we not seeing price for kind of situation and how are the players in the market grapple with it? Do you see the weaker players dropping off? That is from the supply side. On the demand side, do you see consumers downgrade into the unorganized sector? Thank you.
- Bharat Mody:** We do not see any consumer downgrading to the unorganized sector, that would not happen and even if it happens we do not feel that kind of thing to happen. What was the second question, can you repeat that part I can answer you?
- Bobby Jayaram:** The consumers now downgrade to cheaper varieties because of the recessionary transition?
- Bharat Mody:** No, even if that is we do not experience that.
- Bobby Jayaram:** So, you still see the shift from the unorganized to the organized?
- Bharat Mody:** Very much it continues. On the country that base has increased.

- Bobby Jayaram:** How do you explain that given that we have real estate recession led?
- Bharat Mody:** What is happening is the people have been exposed to a lot of global as well as national level lifestyle range and therefore people aspire to like to have this kind of a thing somewhere, so they do not look back and go downgrade, but they always look forward. Whenever they feel they are comfortable buying a property they would like to have a best of it, so the trend continues. In fact we have seen a lot of shift towards, premium range of a product in our product category that the demand also has been on a rise. Therefore we are also trying to premiumize those product selectively in every product category, though we still continue with the value for money range of product.
- Bobby Jayaram:** The homes that are coming up now in the affordable segment category, what kind of sanitaryware do they choose?
- Bharat Mody:** Well affordable would generally go for a low value kind of a thing. These are sort of an Indian style what we call an Orissa Pan. There is an Anglo-Indian which is a combination of a commode as well as on a top of it fixed with an Indian style. This is what is going for more of an affordable house. We have a very selective product range which goes into that kind, but this is what is absorbing the capacity of the unorganized sector to a very large extent and therefore their competitiveness against us where we really try to compete on a higher end is reduced, which opens up more business for us.
- Bobby Jayaram:** One more question, you mentioned in an answer to a previous question that most of your demand, virtually all of your demand is OEM demand that is from the developers, would that also acquire to tiles or is that more replacement demand there?
- Bharat Mody:** Replacement demand for tiles and faucets is much higher than sanitaryware because they are easy to replace compared to sanitaryware. If you want to replace the sanitaryware many times you need to break open the entire bathroom, you need to redo the piping, you need to redo the electrical, open up the tile and everything, the plumbing is to be redone, but if you want to change faucet it takes only few hours and may be if you want to change the tile it takes only about a day or more or two days at the most so it is easier, less cumbersome, but sanitaryware is very difficult to really replace standalone. If you want to replace we will have to do a lot of things at the same time. Replacement market for faucet and tiles is far more higher compared to sanitaryware would be.
- Bobby Jayaram:** Which would make your business less cyclical as you say?

Bharat Mody: Absolutely yes, so as we grow more on faucet as well as on tiles, the replacement demand will be more higher.

Bobby Jayaram: Thank you very much.

Moderator: Thank you. We will take the next question from the line of Kunal Bhatia from Dalal & Broacha.

Kunal Bhatia: Thanks for the opportunity. Sir just an continuation with an earlier question. Sir I just wanted to know regarding replacement, what is the approximate, if you could give or rather give some sense on the time period for replacement in terms of tiles, faucet, and sanitaryware?

Bharat Mody: Generally what happens is faucet you try to replace it when it start dripping and it is not almost repairable one. Second when you are seeing a lot of good designs when you move around and you feel like that good for your bathroom and you should have that kind of faucet, the change or repairing cost is more or less half of it or more of an equivalent to what you will be changing, you would be inclined to change that and it is easier because you need to only call a plumber, change that particular faucet, so this is easier. Tiles again the design plays important role, today you have designs on tiles, newer designs you will get attracted to change the flooring.

Kunal Bhatia: Right, Sir and Just I wanted to get some sense on the current market size in case of the sanitaryware, faucets and tiles and in all these three how big would be the unorganized?

Bharat Mody: Sanitaryware is almost about Rs.2700 to Rs.3000 Crores as per the report which we generally get and the business is still shared around 50:50 between organized and unorganized. Faucet is about three and a half times more than what sanitaryware is about Rs.10,000 plus Crores business and that the unorganized sector is more, you could say about 60%, 62% is unorganized maybe 65% is unorganized. Tiles market size is about Rs 23000 to 25000 Crores, and there unorganized sector is again very high, but the question is unorganized sector they do not have a nationwide reach, they are into the pockets and therefore they need a distribution channel so what most of the unorganized players tie up with the branded company like Kajaria, Somany Tiles with JV kind of arrangement We also have been trying to offshore and now we are entering into a JV model, so we are trying to use the capacity that somebody has already built and we are trying to improvise by putting money, adding our expertise to that part in technology as well as in terms of marketing and logistics. This becomes a win-win situation for those who already put up a capacity there, and we have marketing and distribution strengths.

Kunal Bhatia: Has the pace of people shifting from an unorganized to organized increased?

- Bharat Mody:** Well about five years back if you would have ask me a question, I would have answered you that organized is only 40% and unorganized is 60% and that the market size was only two-third of what I am talking today so on an increase of market these ratio is in favour of the organized base.
- Kunal Bhatia:** Thank you so much. Thank you so much for the opportunity.
- Moderator:** Thank you. We will take the next question from the line of Deepak Purswani from ICICI Direct.
- Deepak Purswani:** Good morning Sir. I just wanted to get the sense in terms of the competition especially from the Chinese player in the tiles, sanitaryware and faucetware business?
- Bharat Mody:** There is an antidumping duty guarding Indian manufacturers on Tiles. On faucet ware there is no much of Chinese Product Threat. In Sanitaryware because of its volume and freight coat only premium range imported from China Cera too is importing premium range under an dedicated outsourcing arrangement with a Chinese manufacturers
- Deepak Purswani:** Sir this antidumping duty does it also prevails in sanitaryware and faucetware segment because tiles recently, investigation from the tile business have been initiated from the government that is what we understand?
- Bharat Mody:** No sanitaryware it is not and not even on faucets, but then sanitaryware as a matter of fact is a bulky product with comparatively high cost of the freight and transportation, the risk of the breakages and cracks and therefore generally unless you are an organized player like we also have an outsourcing model where we import premium product from China on sanitaryware, but then we exactly know what business we are in and how to deal with distributor and how to take care of the servicing as well, anybody who only purely imports and try to trade on that part probably with one time he may not be very successful unless he wants to get in and get out of business by making 'x' amount of money, which he gets on that part, may not be sustainable on a longer basis.
- Deepak Purswani:** Secondly Sir with regards to your fuel cost, I think at some of the sanitaryware we were earlier getting the APM price for natural gas?
- Bharat Mody:** We still get that GAs at APM price for certain quantity. We get almost about 45% to 50% of capacity on a natural gas from APM price and the balance is from international competitive pricing
- Deepak Purswani:** When we are looking for the incremental capacities, so would we be getting that benefit or would we be getting?

- Bharat Mody:** We will get it at market price, but currently because the crude price falling we have an average cost between the two sources. which used to be earlier until last FY 2015 around Rs 33- 34 is now reduced to RS 27/- per cu meter now.
- Deepak Purswani:** For the tiles unit, which you are mentioning in Andhra, this we would be using coal gasifier. In terms of the equipment are we importing it from the European region or from the Chinese region?
- Bharat Mody:** Well these are two options available to us but we would take a call when we really start and commence the production sometimes in the March and April.
- Deepak Purswani:** Thanks a lot Sir.
- Moderator:** Ladies and gentleman that was the last question.
- Kamlesh Kotak:** Just couple of points, how much was the import during the quarter for us?
- Bharat Mody:** The imports for the quarter for us in terms of, you want the value?
- Kamlesh Kotak:** Yes.
- Bharat Mody:** You may have to go back to the figures, I may come back.
- Kamlesh Kotak:** Or any ballpark percentage also would suffice Sir. I want the number for imports and outsourcing as a percent of revenue if you can help me?
- Bharat Mody:** Outsourcing if I really put it, it would be closely about 20% in terms of the volume, but the value would be 40% of sanitaryware, on faucet where we do not import anything, it is only pure sanitaryware that we import.
- Kamlesh Kotak:** Tiles would be all out sourced?
- Bharat Mody:** All outsourced but domestically.
- Kamlesh Kotak:** So let me know separately the import number?
- Bharat Mody:** Surely I will try to.



Cera Sanitaryware Limited
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Kamlesh Kotak: Great. On behalf of Asian Markets we thank the participants for attending the call. A special thank to Bharat Bhai for a very detailed discussion about the companies business and industry outlook. With that we conclude the call. Thank you, have a good day.

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

Moderator: Thank you. On behalf of Asian Market Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.