CERA Sanitaryware Limited

Q1 FY20 Earnings Conference Call Transcript
August 02, 2019

Moderator: Good morning, ladies and gentlemen, welcome to the Cera Sanitaryware Limited Q1 FY20 earnings conference call. As a reminder, all participants' 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 over the conference to Mr. Devrishi Singh from CDR India. Thank you and over to you, sir.

Devrishi Singh: Thank you. Good morning, everyone and thank you for joining us on the Q1 FY20 earnings conference call of Cera Sanitaryware Limited. We have with us today the management team of Cera Sanitaryware Limited; Mr. Ayush Bagla - Executive Director and Mr. Rajesh B. Shah - CFO and COO of the Company. We will begin the call with brief opening remarks from the management following which we will have the forum open for an interactive question-and-answer session.

Before we start, I would like to mention that some statements made in today's call may be forward-looking in nature and a disclaimer in this regard is available in the results documents that were shared with you earlier.

I would now hand over the floor to Mr. Ayush Bagla for his opening remarks. Thank you and over to you, sir.

Ayush Bagla: Good morning, everyone and thank you for taking time out to join the call. The earnings for the first quarter of FY20 were adopted by the Board of Directors yesterday on 1st August 2019. The earnings documents have been released to the stock exchanges.

Q1 FY20 has been a fairly challenging period for the industry. Despite challenging macro environment, the company's performance for the quarter has been encouraging. We believe that our strong leadership position, emphasis on stringent credit policies and other inherent strengths have helped us to maintain a steady performance during Q1 FY20. Our recently launched products continue to receive an encouraging response from the market. We are confident of building on our Q1 performance in the coming quarters on the back of expected improvement in the macro environment and growing demand for our products.

Now, we will cover the description for the last quarter, which is quarter one of the financial year 2020.

Revenue for the quarter stood at Rs. 267 crore versus Rs. 281 crore in Q1 of 2018 - 2019, which is down by 4.7% on a Y-o-Y basis. EBITDA excluding other income for Q1 FY2020 was Rs. 35.2 crore versus Rs. 35.3 crore in Q1 2018 - 2019. The

EBITDA margins for the period stood at 13.2%, higher by 60 basis points on the back of improving operational efficiencies. Profit after tax for Q1 was Rs. 19 crore versus Rs. 21 crore in Q1 FY2019, registering a decline of 6.9%. EPS on a quarterly basis was Rs. 14.7 per share versus Rs. 15.8 per share on a Y-o-Y basis.

To conclude, things are moving in the right direction and our strategy of offering newer products and improving our product mix are yielding positive results. With a diversified product basket, brand salience, strong R&D team, and a strong distribution network we are well placed to drive future performance as well as consolidate our leadership position in the industry.

On that note, I would now request the moderator to open up the line for Q&A. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Praveen Sahay from Edelweiss. Please go ahead.

Praveen Sahay: Can you give the segment level growth number?

Ayush Bagla: Yes, we can. For Q1 2019 – 2020, 51.5% of the top-line was sanitaryware; 25.1% was faucetware; tiles was 19.6%; and wellness was 3.6%.

Praveen Sahay: And how is the growth?

Ayush Bagla: Sanitaryware declined by 12.7%, faucetware grew upwards by 9%, tiles grew upwards by 2%; and wellness is a very small category.

Praveen Sahay: Okay, sir. You had mentioned in the last call that, there is a price hike in the month of April. So, the volume decline is in a higher number in sanitaryware?

Ayush Bagla: The pricing strategy in sanitaryware business is reviewed every (inaudible). So, this April, the pricing was reviewed and most products received a 3% to 5% increase which was implemented from 1st May.

Praveen Sahay: Okay.

Ayush Bagla: See, volume again; we have already discussed that the volume is not the best parameter to look at this Company, simply because there are so many SKUs and there are so many revolving SKUs and a lot of lower quality and lower technology products are being phased out and replaced by higher margin and technologically complex products. And you know the creamiest part of both faucetware and sanitaryware business is the replacement market, where the upgrades are happening, where people are spending maybe 3x of their current product to upgrade. So, that is where all the focus of the Company is. So, volume again, is not the best way to look at the Company.

Praveen Sahay: Yes. So, last time also you had mentioned that preimmunization trend is seeing in the Company. So, that trend is a continuing?

Ayush Bagla: Yes, this quarter you see there were headwinds from the market. We are 72% retail and only 28% projects and developer led. So, our sales are now 72% through dealers, which means retail customers, home improvements, home upgrades, etc. Now those customers we have found in many cases, they have been postponing their decisions. At the same time, we do not want to offer extended credit to dealers or to projects. So, that is why this value decline of 12.7% in sanitaryware if you see and that was one of the reasons, because our receivables days, which was 54.6 in Q1 of 2018 - 2019, remained at the same number at 55.4 in Q1 of 2019 - 2020. So, there was virtually no change in receivable days, whereas the industry has really taken a hit on that front. So, everybody's receivables have gone out of whack in order to maintain some kind of similar number of sales. So, we found that at the retail end, there were a lot of postponement of decision.

Praveen Sahay: Okay. So, last one, like, as you are saying that a lot of postponements in the purchasing. So, last time also you had said that the sanitaryware industry to grow to 7% to 10% annually. Will that continue your guidance, or we will see some kind of correction as well?

Ayush Bagla: See, on an industry level, you know we do not get any third-party data. So, we just collect the anecdotal data that our dealers give us and our sales force gives us. So, to give you an example, in Q4, we grew from Rs. 360 crore to Rs. 413 crore. So despite the slowdown, we had one of the best Q4 in 2018 - 2019. And that gave us the confidence to make guesstimates for 2019 - 2020. But we expect that in the coming quarters, things will turn around and post-budget, post more emphasis on completion of affordable homes, not only in the form of Awas Yojana but even the Prime Minister statement that remove all obstacles in project completion for affordable homes. Those are the things which give us the confidence that the balance three quarters will playout on an even keel.

Praveen Sahay: Okay. And also like the month of May due to election got impacted. So, that is also…

Ayush Bagla: And you know, we have been very-very conservative, this company's DNA is being extremely financially conservative. So, that DNA, I do not think is likely to change. And that has worked very well for us simply because we do not have any delinquencies. You know, we are very-very careful with projects; there are lot of layers of security we built in before we supply to a project. So, jumping to take orders from projects and supply and get paid on a delayed basis. But that is something CERA has never done and unlikely to happen in the future. So, on the cash flow front, you will find that, on the balance sheet front there is virtually no impact. On the top-line front, yes, there is an impact of Rs. 12 crore.

Moderator: Thank you. The next question is from the line of Archana Gude from IDBI Capital. Please go ahead.

Archana Gude: Sir, I missed your initial commentary. I have two - three questions, like what is your outlook on FY 2020 and is it fair to assume that Q1 was one-off because of election?

Ayush Bagla: Yes, we believe that the Company for the past six years has had a CAGR of 15% on top-line and 16% - 17% on bottom line. So, the Company's size does not allow us to give a firm guidance. We can always make a guesstimate. So, our guesstimate remains that the same 15% growth may be possible for four quarters. We are seeing some of the environment change and consumers who were postponing their decisions in April, May or coming back to inquire about products and home improvement, etc. So, we are very hopeful of making things up from at least the end of H1.

Archana Gude: Okay. So, you mean to say, firstly, there is no demand slowdown in the market in the retail market especially in the month of July?

Ayush Bagla: We found that in April-May there was a pronounced slowdown because of the uncertainties of the elections etc. And because of the overall credit squeeze in the market, we found people postponing their decisions. And we feel that, that was a one-off event, yes. And things of course, cannot change overnight, but we find things are changing in Q2, the impact of which you will start seeing from maybe end of H1.

Archana Gude: Okay. And sir, on this tiles front like you know, this 2% growth for this quarter. Like, how are the things are in Morbi? And how is the competition setting up there?

Ayush Bagla: In Morbi though, the NGT order came into effect in early March, there was unsold inventory with most unorganized players. So, we find that that unsold inventory is still being liquidated. And the effect of the NGT order and the rise in costs for the unorganized players moving from coal gasified to natural gas has not yet taken place. But we also find on the bright side that GST implementation has become very strict. And all coal gasified have shut. So, everybody is now on a level playing field. So, again, by the end of H1, if this overhang of inventory build-up, which was the inventory build-up of many years, gets fully absorbed in the marketplace, we feel that pricing power will return to tiles.

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

Achal Lohade: Sir, could you please elaborate a little bit on with respect to the industry whether are you seeing any green shoots or is just that we are hoping that the second half will be a better growth prospect?

Ayush Bagla: You see, it is still possible to get large orders on projects if one Company is willing to give extended credit. But we have been very careful that we do not want to increase our receivable days or receivable amounts and do not want any delinquency. So, because of that, you find no growth in our top-line. In tiles, it is very easy to get such orders. In sanitaryware and faucetware, in any case, it is a technology brand and design led market. So, there, the Holy Grail is always the retail customer and that is 72% of our sales. So, we feel that yes, Q1 was a one-off period were two - three things combined to make numbers lower than previous years like not only the credit squeeze, elections, and many other things. So, once that has gotten over we believe that Q2 will be of course different and then Q3 and Q4 will be back to a normal growth trajectory.

Achal Lohade: Right. Have you seen the competitive intensity increasing particularly in the faucet space in last let us say two years to three years, has that increased?

Ayush Bagla: See, the faucet has been our best performing segment in terms of growth. To give you an example, last year, the faucet business which was a Rs. 270 crore business became a Rs. 340 crore business. So, the faucet industry size increased by about Rs. 800 crore of which Rs. 70 crore was captured by Cera, one-ninth of the growth of the industry was captured at Cera even though Cera is only a Rs. 340 crore players in a Rs. 8,000 crore industry. So, faucet business has been particularly a strong performer. Even this quarter, it has increased by Rs. 6 crore despite whatever has happened in the external environment. And faucet margins are very close to sanitaryware margins in Cera's case.

Achal Lohade: Okay, they are close, okay.

Ayush Bagla: Yes. And the reason for that are two-three-fold, we now have a comprehensive portfolio of products in the faucetware business. And I will just give you the number on the SKUs; in CERA faucets, we have crossed 850 SKUs, in last quarter I think I said 600 or 650. Now we have crossed 850 SKUs in faucets. In sanitaryware, we have 332 SKUs. So, now we have a comprehensive portfolio. Our plant is fully automated, right from the forged brass, body of the faucet, to the Zermatt handle, to polishing, it is a completely automated plant. And that is very visible to a consumer in the product in the finished product.

Achal Lohade: Right. The competitive intensity in the sanitaryware space?

Ayush Bagla: The intensity of competition in sanitaryware was always there. But currently, we are the largest market share shareholder. So, the pressure on us to continuously perform is always there and it will remain and that is why you see one-fifth of our product pipeline is new introductions in the last 24 months. So, that number we try and keep as a constant.

Achal Lohade: Great. And just one last question, if I may with respect to the premium mass and that kind of break up with respect to sanitaryware and faucet?

Ayush Bagla: Sorry, just say again.

Achal Lohade: The premium and non-premium mix?

Ayush Bagla: See, CERA is the main brand and you know CERA has 27 subs brands and the bulk of them are addressing the mass market. So, right from affordable housing, right to housing in metros, so these 27 sub-brands or series, if you want to call them has divided the market both on design and price.

Achal Lohade: Right. I was asking more from the premium part what you said, you are shredding the low-end part of it. So, I was just curious to know the mix. How much has that changed? And what kind of mix do you see in the next three years to five years?

Ayush Bagla: Currently, you know, more than 75% - 80% of the real estate industry is affordable housing and by affordable housing, we mean housing in metros less than Rs. 50 lakhs. Housing a non-Metro below Rs. 30 lakhs - Rs. 35 lakhs, that is the largest part of projects being currently completed. And even for CERA that has always been the focus. So, it is not a new focus, it has always been the focus.

Moderator: Thank you. We will move on to the next question that is on the line of Nilesh Ghuge from HDFC Securities. Please go ahead.

Nilesh Ghuge: Sir, my question particularly, I would just want to know that my understanding correct. Like if suppose you have to go for vitrified tiles; so you have to use natural gas to maintain product quality, am I right in assuming that?

Ayush Bagla: In the past, the Morbi cluster produced all sorts of tiles whether it is a double charge, GVT which is the vitrified tiles or soluble salt using coal gasifier some use natural gas, etc. Now, with the NGT order in Morbi, there is no option but to use natural gas.

Nilesh Ghuge: Yes. But, sir, outside Morbi, if suppose someone has a unit and still they can make GVT tiles and maintain the quality?

Ayush Bagla: Yes, of course.

Nilesh Ghuge: It is not the problem, there is no problem as far as operations efficiencies...

Ayush Bagla: Right.

Nilesh Ghuge: Yes. And sir, my second question is with regards to the export markets. How do you see the traction in export market? What we understand that there is sluggishness in the domestic market. And so, the export market has picked up. So, what is your thought on that and how that market will be?

Ayush Bagla: In tiles or overall in sanitaryware?

Nilesh Ghuge: Yes, tiles particularly, sir.

Ayush Bagla: Tiles, we estimate that right Rs. 28,000 crore is the domestic industry and about Rs. 14,000 crore is additionally the export market from India, those were the last numbers we had. And very few tile companies have been able to establish a brand in overseas markets, they are still being sold as a commodity. So, to get pricing power in other markets, the market leaders will take the first step and establish their brand in those markets. Their top-line in the tiles for the entire year was about Rs. 250 crore. So, for CERA, it does not make sense to go and establish a brand outside the country.

Nilesh Ghuge: Okay. But what about the other players, is there any volume uptake in the export market? Is it like that?

Ayush Bagla: So it was largely price-driven. And India has been very competitive, I mean, 10 years - 15 years India was importer of titles from China and other markets.

Nilesh Ghuge: Yes, that is why I am asking, how the current scenario is?

Ayush Bagla: Rs. 14,000 crore is a very sizable export base. So, hopefully that will grow. Despite the costing of tiles makers having gone up, having gone up due to change from coal gasifier to natural gas.

Nilesh Ghuge: Okay. So, what are your plans then? Are you looking for that export opportunity? Or you are still happy with the domestic growth?

Ayush Bagla: Predominantly, we are sanitaryware and faucet Company with 80% of our top-line from these two businesses. That ratio of 80:20 is something we want to maintain. And, India is a very lucrative market because you know it is a brand, CERA has been around for four decades. That brand translated into a new market, whether it is in the Gulf or Far East, long time, takes a huge amount of marketing spends after-sale service. Now, we have 250 people currently in the after-sale service department, we have an 1800 number, 24 hours call center, taking customer service requests, technicians in every cities, who visit customers in between 24 hours and 48 hours for after-sale service, etc. So, building that kind of infrastructure in a new market, it is a challenging job.

Moderator: Thank you. The next question is from the line of Pranav Mehta from Equirus Securities. Please go ahead.

Pranav Mehta: Sir, just wanted to understand on the depreciation side, so, why has the depreciation jumped this quarter? And the other thing is that the tiles revenue has again slowed down this quarter. So, what is your guidance for growth in the title segment for the entire FY 20 and FY 21?

Ayush Bagla: See, first I will come to the IndAS. The accounting norms under IndAS have changed which require recognition of rent via capitalized form and change in depreciation and finance cost. So, the interest cost was impacted to the extent of increase by Rs. 44 lakhs and depreciation costs were impacted to the extent of Rs. 1.47 crore.

Pranav Mehta: Okay, sir. And this would continue going forward, right?

Ayush Bagla: This is due to the change in accounting norm.

Pranav Mehta: Okay. So, we should build in that, okay. And what about tiles?

Ayush Bagla: Tiles, you see, again, we expect that things in the tiles business is changing dramatically. So, those who visit Morbi, would know very well that there was an overhang of inventory before the NGT order and that is taking about six months to get absorbed in the market. As soon as that is absorbed and there is already a level playing field on costs because everybody is now GST compliant and everybody is on natural gas from Morbi. So, post these two factors now there will be pricing power returning to the industry post H1.

Pranav Mehta: Okay, sir. And one last question on the sanitaryware side, so this was a kind of industry divider phenomena, all the other players also are you aware that they have seen any de-growth for Q1 at least?

Ayush Bagla: We will wait for everybody's data to come out and then we will be able to take a call on industry-wide phenomena. But we found that at least a Company like CERA, who is not at all keen to extend credit beyond its normal norms, there was a slight postponement of decisions by the end consumer.

Moderator: Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies. Please go ahead.

Sonali Salgaonkar: Sir, my questions are pertaining to the industry largely. Now, how do you view the housing market right now? I know that you have earlier commented that almost 75% to 80% of the real estate or the target customers for us are affordable housing; but generally for affordable housing, is that a lucrative market for branded market leaders like us?

Ayush Bagla: See, that is where the maximum activity is currently taking place. And you know Cera has 27 subsequently brands in sanitaryware, and 24 sub-brands in faucetware. Now, to a consumer, we will always say that we have divided and slice the market on design. But in reality, it is basically dividing the market on price. So, there is a product at every slight change in price point. Right from mass housing right up to premium housing. And CERA has got a complete brand pyramid with you know, 'Senator' just above CERA, which is a premium brand and then are made in Italy and Turkey brand called 'Isvea' which is at the luxury brand. So, we have a pyramid which is complete. Then for absolute Government tenders, we have a brand called 'Jeet' which is neither advertised, not displayed at showrooms. So, we believe that not only with the Aawas Yojana but even the impediments to project completion is now being completely removed by State Governments and other authorities. There is a lot of velocity in that business of affordable housing, and margins on a per piece on an absolute basis might look low, but on a percentage basis and the total volume, it is quite healthy.

Sonali Salgaonkar: Okay. Sir, typically, I mean, you can give us an approximate differential, what would be the delta of margins between, say your premium brands which you cater to urban real estate versus or you know Government projects and affordable housing?

Ayush Bagla: Government projects are very minuscule part of our business currently. Because in the past, we never allowed the CERA brand to be associated with that kind of discounting and tenders. That is why we have this brand called 'Jeet', which is neither advertised nor displayed. But that continues to be a very minuscule part of our business, less than 2%. And going forward that might increase. In private sector, affordable housing and mass housing, CERA has certain series which caters to that market. So, that delta, you know, I mean, together, they are more than 50 sub-brands, so it will be very difficult to slice on that basis. But it will be similar to the overall sanitaryware business margins.

Sonali Salgaonkar: Sure. Sir, and secondly how do you see the urban real estate from here on especially in H2 FY20 wherein, you know, most of the companies are expecting some sort of green shoots in revival? Do you echo those thoughts as well?

Ayush Bagla: I would say outside of Tier-I cities, there are already green shoots, but there is too much mind share of news on Metro City Housing. So, outside of Tier-I and even outside of Tier-II cities, they are already green shoots in both velocity and stages of completion because completed projects, in most cases in mass housing are getting sold and getting absorbed. So, outside of the Tier-I and sometimes even Tier-II cities, there is a lot of activity.

Sonali Salgaonkar: Sir, this activity that you just mentioned, so are you referring to the affordable housing projects or the mass real estate?

Ayush Bagla: To us, below Rs. 35 lakh is a number we normally use for affordable housing outside Tier-I and Tier-II cities. And that is more than 70% of the national market in any case.

Sonali Salgaonkar: Got it. Sir last question sir. What would be the replacement cycle for sanitaryware and faucets by that I mean, we have this life cycle for our products?

Ayush Bagla: You know, it depends on people's perception of home improvement. Product can easily last 25 years in sanitaryware. But anything between 17 years to 20 years is the normal replacement cycle and for faucetware, around 10 years. In any case, our faucet, the body of the faucet which is completely brass forged is carrying a 10 year warranty. So, in most states, RERA has asked for a 5 year warranty and our products carrier 10 year warranty.

Moderator: Thank you. The next question is from the line of Omkar Kulkarni, an individual investor. Please go ahead.

Omkar Kulkarni: In this quarter, you have seen a decline of 4% to 5% in revenue even though your EBITDA has held up quite nicely. The slowdown was also visible during demonetization and GST but that time your revenues were at least growing at a single to high double-digit. So, what was the different in this time that your revenues have actually fell 4% - 5%?

Ayush Bagla: Three years ago, demonetization time the Company was 45% smaller. So, to give you an example 2018 - 2019 we closed with Rs. 1,350 crore of top-line. Demonetization time our top-line would be about Rs. 800 crore. So, a lot of it has to do with base effect.

Omkar Kulkarni: Okay. So, it is only to do with the basic effect.

Ayush Bagla: Bulk of it has to do with the base effect. But the silver lining over here is you see PAT and EBITDA not that impacted, in most cases a slight change in sales impacts

CERA

the EBITDA and PAT a lot. So, bulk of our costs are variable in nature is what you can make out. The cost behavior you see a bulk of it is variable. So, that is something that has emerged from this quarter as well.

Omkar Kulkarni: Okay. And you said that the bulk orders which you receive in tiles should have received but because of credit problems, you have deferred that.

Ayush Bagla: Historically, if you followed the Company, you will find that this Company has remained debt-free; it never takes working capital, now it has got Rs. 191 crore cash and cash equivalents. And if you track that number on a Q-on-Q basis that numbers is increasing by about Rs. 10 crore to Rs. 15 crore every quarter despite ongoing capex programs, etc. So, you know there is always a temptation to take large orders, etc. But we know that you know delinquency etc. is a problem that has faced our competitors in the past and we never want to take any kind of risks on that front.

Omkar Kulkarni: Okay. So, you have mentioned around Rs. 190 crore of cash you have. So, how do you plan to utilize it? Like apart from regular capex and maintenance capex and all I do not think so, we will be putting up new capacity. So, what is the plan to utilize that?

Ayush Bagla: I can give you the number for this year. We have a planned capex program of Rs. 56 crore of which Rs. 20 crore will go into sanitaryware automation; Rs. 9 crore will go into faucetware automation; Rs. 6 crore will go into customer touchpoint additions; Rs. 17 crore will go into completion of the staff colony near our factory which is almost complete currently. Rs. 4 crore will go into logistics and IT. So, all this totals Rs. 56 crore.

Omkar Kulkarni: Okay. Apart from that, any capacity you are thinking? I do not think so, that is the in your mind currently?

Ayush Bagla: This automation projects in both sanitaryware and faucetware, they have more qualitative impact on the products. So, less handling by labour, etc. so that results in better quality, high realization, etc. more, I mean, less rejections. So, that is more cost side and quality side benefit. In any case across all sanitaryware and faucetware business and tiles business around 50% of current sales are outsourced.

Moderator: Thank you. The next question is from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.

Karan Bhatelia: Sir, how is the capacity utilization across the product verticals?

Ayush Bagla: First, I will give you outsource and own capacity numbers. So, that will give you a handle. Sanitaryware own manufacturing is 49%; outsourcing is 51%. Faucetware the own manufacture is 44.5% and outsourcing is 55.4%. And tiles is a mix of 100% outsourcing through JVs and from vendors. Within sanitaryware, capacity utilization for the quarter was 85%; and in faucetware capacity utilization for the quarter was 58%.

Karan Bhatelia: And versus Y-o-Y?

Ayush Bagla: For the year, I have for the year number handy.

Karan Bhatelia: Also, sir, out of the other expense how much is the rental expense and how the adjustment has been done?

Ayush Bagla: Total adjustments of Rs. 1.68 crore were done and that included increase in interest and depreciation. And those were post EBITDA items.

Moderator: Thank you. The next question is from the line of Saumil Mehta from BNP Mutual Fund. Please go ahead.

Saumil Mehta: Sir, taking one of the questions, right if I look at most of the building materials category, this quarter be it paint, titles, there has been a volume growth whereas you know, what we feel the revenue decline on a Y-o-Y basis. So, is it more got to do with the channel destocking or there is competitive intensity going up because you know 'Jaquar' has entered aggressively into the sanitary space your thoughts on that.

Ayush Bagla: See, all our competitors were in any case, the competitive intensity was always very high. And CERA being the market leader, everybody focuses on CERA and CERA's products. So, that competitive intensity has always been high. We just found that dealers do not want to stock as much. Yes, as you said correctly and the end consumers have been postponing their decision. So, these were the two factors which were evident to us. And as far as our 28% of our business of projects is concerned, we took a call just to be extremely careful on credit. And that has been again a historic policy. So, no change over there.

Saumil Mehta: Okay. So, going forward a stated object to do about 13% - 14% revenue growth that remains intact with about margins about 14% - 15%, which has been a historical level.

Ayush Bagla: That is our expectation for the full year. So, we have never given out any guidance, we have always said that, this is our guesstimate because a Company of Rs. 1,350 crore is still too small to give out a definite guidance.

Saumil Mehta: Sure. And in terms of our venture into tiles, how do we look at that business over the next two years - three years, so we will be continuing to be more of outsourcing or rather the manufacturing will start going up from what it is right now. Because, you know, historically, titles as a business has been, much margin diluted compared to sanitary. So, how do we see that business structurally with next three years to five years?

Ayush Bagla: In tiles, there were two-three reasons why tiles was an important component of business, there is a customer overlap, there is a certain dealer overlap. And of course, there is a transferability of the brand promise. Those were the positives. Yes, the margins are nowhere close to faucetware and sanitaryware but things are changing in tiles. There was a time, three years - four years ago where tiles margins were healthy but there was a glut in production and that is now currently changing. So, post H1, we feel that the inventory overhang if it gets fully absorbed pricing power will return.

Saumil Mehta: Okay. And my last question on sanitary, was the slow-down across pan India or some certain geographies, there was a much larger slow down our physically stronger presence?

Ayush Bagla: So, that was the overall phenomena, not limited to any states.

Moderator: Thank you. The next question is from the line of Mansi Patel from Purnartha Investments. Please go ahead.

Mansi Patel: So, I just wanted to ask you, regarding the growth for CERA like, I know you have answered it is about 15% topline growth and in Q3 and Q4 also we said the margins will be sustainable. So, what it the future outlook for the remaining quarters for FY 20 - FY21?

Ayush Bagla: I could not heat that clearly. But whatever I could make out, you are talking about the outlook for the remaining three quarters.

Mansi Patel: Yes, in terms of margins and in terms of top-line growth.

Ayush Bagla: We feel that the EBITDA margins of 14% – 15% that the Company earned in FY 19 should remain intact for this year once you have a chance of collating all four quarters. Even for this quarter, we had an EBITDA margin of 14.11%. So, I think, this is the lowest it will go, it should only go up from here.

Moderator: Thank you. The next question is from the line of Mahesh Kabra from BSK Group. Please go ahead.

Mahesh Kabra: Well, my questions have been actually answered. But I am happy to hear your confidence about revenue growth, top-line growth over the next three quarters, 15% would be roughly that. So, that means over the next three quarters, we would be adding roughly Rs. 70 crore top-line each, is that correct understanding?

Ayush Bagla: It may not be in a linear fashion. Even last year, the maximum growth happened in the last quarter from Rs. 360 crore to Rs. 413 crore. So, we added about Rs. 53 crore in the last quarter. And we expect if we add about Rs. 40 crore to Rs. 50 crore in Q2 and little more in Q3 and Q4 then the same growth trajectory will remain intact.

Mahesh Kabra: And the same situation would be for margin? Just now, probably in the last question, you have said that 14.1$ is probably your bottom margin and you would be improving from here, right?

Ayush Bagla: Yes, the overall margin last year EBITDA margin was in last quarter Q4 was 16.82% and for the year, it was 15.35%. So, 14 .5% to 15% is where we expect we should end this year.

Moderator: Thank you. The next question is from the line of Hemant Patel from Alder Capital. Please go ahead.

Hemant Patel: I just have two questions. The first being, do you track secondary sales as well in your system?

Ayush Bagla: So, dealers off-take products from the Company and each dealer normally services, anything between 5 and 25 retailers cruising their own three-wheelers, their own godown storage space, etc. So, beyond the dealers, yes, we are currently rolling out one ERP system which has a lot of AI tools and big data tools, which will help dealers track movement of not only CERA products, but overall consumer behavior and save them some costs and logistics. So, that process is currently on during this year.

Hemant Patel: Okay. So, my intent was to ask from the perspective that you have mentioned earlier that there has been a certain level of destocking which is happening at dealer level. Just trying to understand whether retail and consumer off-take has been a better off than the dealer level primary off take?

Ayush Bagla: It is a mix of both the factors, I mean, liquidity crunch was felt at the dealer level as well. Now, we do have a small program for channel financing and we have SBI as a channel financing partner. But we have not encouraged that very much because we do not want dealers to get access to a lot of liquidity and then tracking that liquidity, etc., they may not have the financial discipline of a large Company. So, we have never really actively encouraged general financing. So, you will find that dealers have also faced liquidity issues from maybe their other businesses, some of them are dealers in cement, pipes, many other products. So, combination of end consumer postponing their decisions and dealer liquidity issues have led to the current numbers that we have on top-line.

Hemant Patel: Okay, fair enough. And do you run any kind of active costs reduction programs that we can be aware of, can you call it out, as to what kind of savings that you are planning to actually run through in the system?

Ayush Bagla: On the shop floor, we have many active programs whether it is waste. So, let me give you some background on the company's energy-saving activities. More than 90% of the electricity consumption in the factory is self-generated and generated through renewable energy sources. So, we have about 10.8 megawatts of own capacity in wind and solar. So, we do not have to pay anything to the GEB beyond 5% - 7% of our power consumption in the factory. That is one. Then there are a lot of you know the waste material recovery projects ongoing, especially faucetware, brass, etc. Then, on the natural gas front, yes, I will just give you a number for last year and also for this year. We have two sources of natural gas. One is from GAIL and one is Sabarmati. So, GAIL gas is a subsidized gas because it is from isolated well in and around Kadi, which is where our factory is located near Mehsana district. And the pricing is most often 40% to 45% lower than Sabarmati Gas. For the year, the ratio of GAIL is to Sabarmati was 52 and 47 Sabarmati. But this quarter, we were able to get more allocation of GAIL so the ratio was 71 GAIL and 28 Sabarmati. So, those are the important cost energy-saving activities. And then you see from our capex program, if you look at the capex program of the last three years bulk of it has revolved around automation in the factory. So, reduction in human intervention, whether it is robotic arms for glazing and many other such AI tools that have been used on the shop floor, there is 3D printing for prototyping robotic arm for glazing, human intervention at every step has been reduced in an industry known for very-very high level of human intervention.

Hemant Patel: Okay. And just one last question, if I may, this is regarding FY19. Could you share the volume value growth faucets and sanitary if you can?

Ayush Bagla: Yes. Sanitaryware was 52% of top-line. So, you can divide everything by 159 and faucetware was 23.5% of top-line. Sanitaryware 52.5%; faucetware 23.5%; tiles 20.5% and wellness 3.4%.

Hemant Patel: No, I was referring to value volume growth for faucet and sanitaryware.

Ayush Bagla: So, then I give you 2017-18 where you can divide everything by 1182. In 2017-18 you divide the ratios that I am giving you by 1182. Sanitaryware was 56.24%; faucetware 22%; tiles 19.9%; and wellness 1.8%.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand over the conference to the management for their closing comments.

Ayush Bagla: Thank you, everyone. It will always be an endeavor to answer all questions. Should any participant feel the need for further clarification or would like to know more about the Company please feel free to contact our IR team or me or CDR India.

Thank you once again for taking the time to join us on the call and see you all next quarter. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of CERA Sanitaryware Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.