



Cera Sanitaryware Limited
Q3-FY19 Earnings Conference Call Transcript
January 31, 2019

- Moderator** Ladies and gentlemen, good day and welcome to the Cera Sanitaryware Limited Q3 FY19 Earning 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 '**' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mayank Vaswani from CDR India. Thank-you and over to you, sir.
- Mayank Vaswani** Thank you, Janis. Good morning everyone and thank you for joining us on the Q3 FY19 earnings conference call of Cera Sanitaryware Limited. We have with us today IR team of Cera Sanitaryware; Mr. Bharat Mody – Strategic Advisor; Mr. Ayush Bagla – Director and Mr. Rajesh B. Shah – CFO 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 Q&A session.
- Before we start, I would like to just mention that some of the statements made in today's conference call may be forward looking in nature and a disclaimer in this regard is available in the results documents that were shared with all of you earlier. I would now like to hand over the floor to Mr. Ayush Bagla for his opening remarks. Over to you, Ayush.
- Ayush Bagla** Bharat Mody will just make an opening comment.
- Bharat Mody** I am Bharat Mody, Strategic Advisor to the Company. A very warm welcome to all of you for CERA's conference call of Q3 of FY18-19. I would like to introduce this time, Mr. Ayush Bagla who is our Director and also our CFO, Mr. R. B. Shah who will be addressing all the questions and answer now on. Now, over to you, Ayush and you can take over for that.
- Ayush Bagla** Thank you, Bharat bhai. Good morning everyone and thank you for taking time out to join the call. Post our board meeting on 29th January, the earnings documents were released. We are pleased to share our results for the third quarter financial year 2019, which clearly indicate a continuation of our growth trajectory. The Company continued to deliver strong growth of the corresponding period last year on key financial parameters be it Revenue, EBITDA and PAT.
- Revenue for the quarter stood at Rs.318 crore, registering a 9.6% year-on-year growth. EBITDA excluding Other income for Q3 FY19 was Rs.46 crore registering a growth of 13.2% on year-on-year basis. The EBITDA margins for the period stood at 14.4%, higher by 40 basis points on back of improving product mix, operational efficiencies and price hike for some of the offerings.

We will look to consistently perform on the back of technological innovation and product design to enable premiumisation across the product range. Profit after tax for Q3 was Rs.28.4 crore versus Rs.23.1 crore in Q3 of FY17-18, an increase of 22.9%. Profit after tax margins were 8.9% versus 7.9% on a Y-o-Y basis. EPS on a quarterly basis is Rs. 21.8 per share versus Rs. 17.8 per share on a Y-o-Y basis.

Inventory days in Q3 FY18-19 were 48.03 days compared to 52.93 days in Q3 of FY17-18. Receivable days in Q3 FY18-19 were 58.35 days versus 65.62 days in Q3 FY18-19. Total working capital days in Q3 of FY18-19 were 106.38 days versus 118.55 days in Q3 of FY17-18.

We believe that we are well positioned to capitalize on the anticipated growth in demand for Sanitaryware, faucets and tiles. We are confident this growth will benefit from the strong foundation of sustainability and best practices that the Company has built its business upon. We look forward to your continuing support in our journey, which we believe will create long-term value for all our stakeholders.

On that note, we would like now to ask the moderator to open up the line for Q&A. Thank you very much.

Moderator

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Mohit Khanna from Nirmal Bang. Please go ahead.

Mohit Khanna

One question that I had regarding the EBITDA margin improvement here; what were the real drivers apart from the price increments that were taken for last year? And the second question that I had was regarding the increase and purchase of finished goods. What were the real reasons that this has increased overtime and how do you see this going forward?

Ayush Bagla

See, EBITDA for the quarter was Rs.50 crore versus Rs.42.51 crore and EBITDA margins were Rs.15.68 versus Rs.14.61, so about a 100 basis point increase in EBITDA margins. Price hike of course was one reason, product mix was one reason, increase in premiumisation was one reason and judicial mix of both outsourcing inventory management, lower working capital days was another reason. Going forward, this is a continuous effort on behalf of the Company's management, so you can see the direct impact in higher credit controls, lower inventory, lower receivable days and overall lower working capital.

Mohit Khanna

So when you say premiumisation was the reason, if you can give us what was the breakup of revenue from the luxury and mid premium in the entry-level products?

Ayush Bagla

CERA is the main brand which has 27 different series within CERA. Above CERA is 'Senator' by CERA and then the absolute pinnacle of luxury is the 'Isvea', Italian and Turkish range of products that we have. So within CERA, there is a lot of premiumisation taking place from one series to another and that is the meat of the market.

Mohit Khanna

So within the mid segment only, the customer has been upgraded to higher or better categories?

Ayush Bagla

Yes and that is where it is both the volume and value driver for us.

- Mohit Khanna** And then the purchase of finished goods that has increased considerably considering the levels last two years, how do you see this going forward?
- Ayush Bagla** One is it is in line with our increase in top-line and second is you know the higher technology products, higher value products which are core to our business are manufactured in our own facilities and those were we can outsource with adequate QC controls, designed controls and finished controls and then have a second layer of QC in our own factory, those are outsourced. So that is the mix of outsource versus own production and that is the reason you see the increase in bought-out products.
- Mohit Khanna** And lastly would you please give us the segment-wise year-over-year revenue growth for Sanitaryware, faucets and tiles?
- Ayush Bagla** Sanitaryware is currently 52% of our top-line, faucetware is 23%, wellness is 3.5% and tile is 20%. The growth in Sanitaryware is 4.7%, in faucetware is 23.44%, in wellness is 81.5% and in tiles it is 2.87%.
- Mohit Khanna** So this really means that there was absolutely no volume growth with Sanitaryware this year because 3 to 5% was the average price hike taken in the last quarter?
- Ayush Bagla** See the markets have been muted. Within these muted markets, our efforts on premiumisation and focusing on higher margin products are bearing fruit.
- Moderator** Thank you. Next question is from the line of Omkar Kulkarni, Individual Investor. Please go ahead.
- Omkar Kulkarni** My question was regarding your commentary which you have given in your press release. On one hand, you have mentioned that the environment remains challenging for the housing sector and in the second paragraph, you have mentioned that we remained confident about the prospect that it has been improving continuously, so what exactly is the commentary from the management?
- Ayush Bagla** The external environment has always presented its own unique set of circumstances, so currently the housing and real estate market are muted, but within that there are certain strengths of the Company, debt free balance sheet, high corporate governance, focus on technological innovation and design improvement. So as you have seen in the last many years and in this financial year, the challenges of the external environment have been adequately met in an improved financial performance on every parameter. So going forward that is our aim and that is our endeavour.
- Omkar Kulkarni** But the external environment remains challenging that is what you are saying?
- Ayush Bagla** Yes, that of course, we all know the external environment in real estate develop a financials remain challenging.
- Omkar Kulkarni** To that extent, it limits your future growth, right?
- Ayush Bagla** You see, only 30% of our top-line is direct sales through developer, 70% of our sales is through retailers and dealers that includes the replacement market that includes the dealers selling secondary sales to both developers

and to the replacement market, so 70% of our sales are not to direct real estate institutional players.

- Omkar Kulkarni** The second question was if you see the top-line for this particular quarter, it has been little bit low as compared to your first two quarters, so any particular reason about that?
- Ayush Bagla** You see, there is a seasonality effect in our business. If you compare on Y-o-Y basis, there has been an increase and that is the best comparison rather than from Q2 to Q3.
- Omkar Kulkarni** No, even if you see Q1 and Q2 both, the Q3 sales, on the growth side it is little bit lower?
- Ayush Bagla** Correct, but on the profitability side, the Q3 has delivered outstanding numbers.
- Omkar Kulkarni** Yes, there has been improvement in that front.
- Ayush Bagla** Correct.
- Omkar Kulkarni** Only seasonality is the factor for this little bit lower growth in the top-line or any other reason?
- Ayush Bagla** Yes, it is just lower growth, it is above the annual base set for a particular quarter and again the best comparison will encourage you to have a look at Q3 of 17-18, Rs.290 crore versus Rs.318 crore of this quarter.
- Moderator** Thank you. Next question is from the line of Shrenik Bachhawat from JM Financial. Please go ahead.
- Shrenik Bachhawat** Sir, I would like to understand your strategy with respect to Sanitaryware business and how do you plan to overcome the competition and also as Sanitaryware and faucet has similar replacement cycles why there is a significant difference in growth?
- Ayush Bagla** See the Sanitaryware business is very different from the tiles and the faucet business. The top three players have between 50% and 60% market share and that has been a steady base for the last many number of years. So there is adequate brand pull and adequate brand recall and pricing power as a result of that brand recall; versus in the faucet ware business, the market is much more fragmented, there 50% is organized, 50% is unorganized. Within the organized, there are a few large players and all the others have single digit market shares. So it is a completely different market between faucet and Sanitaryware. Within Sanitaryware between the three players, we are the largest. We have both brand recall, brand pull and our design innovation; we are completely IT-driven Company. The product quality, design differentiation, functionality and after sales are the four important factors of our brand products. So we will have to differentiate completely between the faucet and Sanitaryware. The raw material behaviour in Sanitaryware is completely different from the faucet market. That is why you see the difference in profitability of Sanitaryware Companies versus Non-Sanitaryware Companies in the same space.
- Shrenik Bachhawat** And sir, can you help me, what would be roughly the replacement cycles for the both products?

- Ayush Bagla** See it is difficult to say if you talk about OEM or the replacement market. It is a very different cycle. I mean the bathroom gets build at the start of a housing project in last 10 to 15 years before the large replacement cycle get kicks in, but within that there is a smaller cycle where there is repair and maintenance, faucets can be changed in a few hours versus Sanitaryware which require a larger project breakdown of each and every bathroom. I mean it is within a cycle, there are smaller cycles.
- Shrenik Bachhawat** And sir about the tile segment, have we reached this stage that incrementally there will be single digit growth in tiles?
- Ayush Bagla** CERA in tiles is a newer entrant, entering the segment in 2014 with its own plant coming on stream in 2016. So we are now at let us say a base of around of Rs.240 crore to Rs.250 crore of top-line in tile annually in a market size of Rs.14,000 crore, which is just an organised market in tiles. So there is ample headroom to grow and current growth in tiles is 2.8%, so that market is growing, CERA is growing. As our tiles reach more customers, that number will increase. To put a future number on that currently would not be correct.
- Shrenik Bachhawat** So going forward, you expect low double digit or many double digits?
- Ayush Bagla** Yes. Double digit, high single to low double-digit growth, because there is lot of headroom in the Rs.14,000 crore market, we are just at Rs.240 to Rs.250 crore.
- Shrenik Bachhawat** Sir, could you please help me with the volume growth in Sanitaryware, faucet and tiles Y-o-Y?
- Ayush Bagla** We currently do not give out volumes, we have given you the numbers and revenue of each of the three; so on last year's numbers you can extrapolate the total sales of Sanitaryware, faucets and wellness. Also you know giving out the numbers also does not give you qualitative understanding of what the Company is doing because the Company and the customers both are moving towards higher value items within each brand.
- Moderator** Thank you. Next question is from the line of Siddharth Rajpurohitohit from JHP Securities. Please go ahead.
- Siddharth Rajpurohitohit** Sir, can you please guide on the capex plan for the Company and also on the JVs for tiles that we were looking for, specifically in wall tiles and all?
- Ayush Bagla** The CAPEX plan for FY2018-19 is Rs.70 crore, incurred up to December 18 is Rs.41.72 crore and there are about six heads of capex, one is capacity creation, one is customer touch points, one is investment in the tiles business, one is investment in a small polymer plant, one is R&D and the final one is balancing equipment in the production line. So we categorize capex in these six categories. Now coming to the tiles plant, we entered the segment in 2014, our own plant got commissioned in 2016. It is the 51:49 plants where CERA holds 51% equity and CERA's investment is via pure equity and preference shares in a Company called Anjani Tiles Limited, the plant is in Andhra Pradesh. That plant is operating, the installed capacity is 10,000 square meters per day and capacity utilization is close to 90%. It manufactures soluble salt and GVT tiles. 'CERA' off-takes the entire production from that plant.

- Siddharth Rajpurohitohit** Sir, more looking towards the new JVs that you were looking for in Morbi?
- Ayush Bagla** Yes, we have signed another JV in Morbi with the Company called Milo Tiles where again, CERA has taken equity stake and made investment in equity and that Company manufactures 7,000 square meters of tiles per day. Capacity utilization is 95% and 100% off take is for CERA. The product mix is premium GVT tiles, EBITDA positive Company.
- Siddharth Rajpurohitohit** We were looking for wall tiles also sir, JV for wall tiles?
- Ayush Bagla** See, there are a lot of proposals for JVs in wall tile. So as and when something is finalized, we will surely let the investors know.
- Siddharth Rajpurohitohit** And sir, can you also guide something on the reach point, means the number of stores or distribution networks that we are going to plan to increase?
- Ayush Bagla** See currently, as on September 2018, we had total of 14,000 dealers and retailers between the Sanitaryware and faucets business, of which about 10,900 were Sanitaryware dealers and retailers, 7,000 were faucet dealers and retailers and tiles were about 1,100. So if you add these numbers, it is more than 14,000 because some of them are overlapping. Then, there are 9 large format Company owned Cera Style Studios. These are an average of 7,000 square feet each in the major metros. There is no sales orientation at any of these centres, only product display and design. Over the next 2 to 3 years, we plan on opening 3 numbers each year.
- Siddharth Rajpurohitohit** Okay, three stores each year of same size?
- Ayush Bagla** Yes, average of 7,000 square feet, is a large format Company on Cera Style Studios. Then, of course, there was 139 dealers on Cera style galleries, an average of 1,000 square feet. Over the next 2-3 years, 25 each year will be opened and then we have 2,700 retailer owned CERA tile centres. Over the next 2-3 years, 100 numbers of each will be opened.
- Siddharth Rajpurohitohit** And finally sir, is this current EBITDA margin that we have got this quarter, is this sustainable?
- Ayush Bagla** See the EBITDA margins have been improving, PAT margins have been improving. That is our endeavour to make them sustainable and that is on the back of both the brand promise and the technological and design advantage we have. So efforts on the technological and design advantage are on, efforts on keeping the brand promise are intact, intact is on. So we believe that yes, this EBITDA margin is sustainable.
- Siddharth Rajpurohitohit** And can you please guide on the revenue growth expectation?
- Ayush Bagla** So far, we have refrained from giving any forward-looking statements, so for us to provide a guidance in a dynamic market may not be the right thing. We continue to address all shareholder queries on a quarter-on-quarter basis after we perform and on an annual basis post March each year.
- Siddharth Rajpurohitohit** Sir, what will be your assumption for the Sanitaryware industry growth?
- Ayush Bagla** See there are no third-party authentic data available, but from anecdotal information, the rate of growth of this Rs.4,000 crore industry is 10% per year.

- Siddharth Rajpurohitohit** Rs.4,000 crore is what you are telling the organized or the complete industry?
- Ayush Bagla** Complete.
- Moderator** Thank you. Next question is from the line of J. Radhakrishnan from IIFL. Please go ahead.
- J. Radhakrishnan** Sir, just trying to understand how this e-way bill is progressing and are you able to see any shift from unorganized to organized?
- Ayush Bagla** Post GST, any case we saw that shift take place and that continues. In any case, our product offerings are far superior. So that shift is on-going process and once you meet few organized players, Government, consumers, large contractors, you will see that preference very evident.
- J. Radhakrishnan** So we would have seen some shift at least in the last two quarters or maybe it is difficult to estimate as of now?
- Ayush Bagla** Yes, we cannot put a number to it, but that shift is very evident.
- J. Radhakrishnan** Because I am trying to understand, sir this 10% growth for Sanitaryware industry, you are telling a long-term growth or you are telling maybe FY18, FY19 kind of growth because we are slightly below the industry, so I am just trying to understand may be because unorganized segment is growing faster, maybe because of Swachh Bharat Abhiyan that is the reason why the overall growth is higher and maybe our growth because of the sluggish housing scenario, it is lower.
- Ayush Bagla** Just to give the whole context, there is no industry wide data available on the growth of the Sanitaryware industry, so everybody makes their own estimates. We have just anecdotal data. If we extrapolate that we feel that the industry is growing by Rs.400 crore a year in a Rs.4,000 crore market.
- J. Radhakrishnan** And sir one more question. Crude prices have declined to some extent and how much cost is crude dependent for us and whether the benefits have reflected already in December quarter?
- Ayush Bagla** Our main plant in Kadi in Mehesana district in Gujarat is fired by natural gas. So we are dependent on gas price behaviour rather than crude price behaviour and we consume gas from two sources, both GAIL and from Sabarmati gas. Both have differential pricing, so our efforts are always on to maximize use of the cheaper source of natural gas, which is GAIL and then go for the balance procurement from Sabarmati gas. GAIL is the administered pricing, so it may or may not have any connection with crude because our gas is from isolated wells. Currently, 65% of our total gas usage is from GAIL and 35% during the quarter is from Sabarmati gas.
- J. Radhakrishnan** Are you seeing any reduction in Sabarmati gas prices sir?
- Ayush Bagla** See these are all controlled pricing, so for us to take a view on pricing will not be correct. In any case, it is 1.9% of our total gas prices and our gas consumption cost is 1.9% of our sales and 2.19% of our cost of reduction.

- J. Radhakrishnan** Okay, so it is miniscule, so we need not bother about that. Sir, just one more question, this Milo Tiles you have told know sir, what is the percentage that we have taken and what is the amount we have incurred for that?
- Ayush Bagla** We have taken a 26% stake for Rs.8 crore.
- Moderator** Thank you. Next question is from the line of Sonali Salgaonkar from Jefferies. Please go ahead.
- Sonali Salgaonkar** Sir my first question is relevant for the industry as a whole. Across your product heads, what would be the approximate industry size, the approximate percentage of organized penetration as well as your market share sir?
- Ayush Bagla** For sanitaryware again anecdotal evidence, an anecdotal data gives us industry size of about Rs.4,000 crore. There is no third-party validation of these numbers and the top 3 players have a market share of between 50% and 60%.
- Sonali Salgaonkar** Sir for the faucets?
- Ayush Bagla** Faucet, again there is no third party authenticated data, but anecdotal data gives us the market size of Rs.9,000 crore, of which 50% is organized and 50% is unorganized.
- Sonali Salgaonkar** Sir and our approximate market share?
- Ayush Bagla** In the Sanitaryware, the top 3 have a market share between 50% and 60% as is currently again estimated at 23%-24%.
- Sonali Salgaonkar** And sir for faucets?
- Ayush Bagla** Faucets, CERA entered this segment in 2007 and our own plant came on stream in 2010, so our top-line is Rs.240 crore in Rs.4,500 crore organized market, so there is enough headroom to grow.
- Sonali Salgaonkar** Sure and sir in Sanitaryware right now, how much would be unorganized?
- Ayush Bagla** We estimate again, this is again data that is not authenticated, but anything between 20%-25% is a mixture of unorganized and smaller players.
- Sonali Salgaonkar** Sir, my second question is what would be your sales mix as in rural versus urban and new demand versus replacement demand?
- Ayush Bagla** 70% of our sales is through dealers and retailers and 30% is through direct institutional players. To split that up into rural and urban would not be that easy, we can obviously try and give you more granular data offline. What was the second question, ma'am?
- Sonali Salgaonkar** Sir, replacement versus new demand?
- Ayush Bagla** The replacement market is below 20%, but again that is not the best yardstick because within that 70% sales of dealers you do not know how much is replacement and how much is OEM.

- Sonali Salgaonkar** Sir and my third question is in your earlier remarks, you mentioned that as one head of capex you are investing in the polymer plant. Sir, could you throw some light as to what is this and what do you expect, I mean what is the utility of this?
- Ayush Bagla** See these are items that we used to purchase from third-party vendors. Now to have a larger control on the quality of seat covers and PVC systems, we have 51% investment for about Rs.3.5 crore in a polymer plant where we off take the entire production and the entire QC and design standards are set by us.
- Sonali Salgaonkar** Sir, my last question is within tiles, how much of your product mix is premium tiles?
- Ayush Bagla** See both our plants in Andhra and in Morbi produce GVT tiles at the premium end of the tiles compared to Double charge of Soluble Salt.
- Moderator** Thank you. Next question is from the line of Ronil Dalal from Ambit Capital. Please go ahead.
- Ronil Dalal** Sir, I missed that capex number, could you just tell me the capex number, not the breakup?
- Ayush Bagla** For financial year 2018-19, it is Rs.70 crore, out of which Rs.41.72 has been spent by December 2018, nine months.
- Ronil Dalal** Sir, I wanted to actually get to know given many Government projects are picking up is probably because this is the election year, do we see any positive impact on 'Jeet' volume growth?
- Ayush Bagla** You see, we have always been participating in Government projects, so both the State Government and Central Government and CERA as a Company is annual with all Government departments and major contractors that execute Government projects, so we have always got a good share of Government projects, both in CERA and in 'Jeet'.
- Ronil Dalal** So, also from your numbers, it looks like October you had a price hike, after that there was no other price hike, right?
- Ayush Bagla** Correct.
- Ronil Dalal** What is the minimum investment to set up a Sanitaryware plant?
- Ayush Bagla** See this Company is now 35 years old. So the creation of this Company is a mix of hard assets and the brand promise. The CERA brand which was incorporated 35 years ago and the plant has undergone multiple changes, upgradations, capacity expansions. For us to give you a breakup of what it will cost to set up a plant now may or may not be...
- Ronil Dalal** Sir not for you, but I mean like if some new player to enter the market, what would you say, is a minimum investment or may be a level where they can operate, where economy of scale kicks in, for a new player, not for you?
- Ayush Bagla** We have been told again, this is anecdotal information that in South India, one plant of 4,000 pieces per day for sold for Rs.250 crore.

- Ronil Dalal** Okay. And one other question, would you say like, somebody is making a new bathroom, what would the cost maybe of just Sanitaryware and faucets for that kind of bathroom, maybe just an average?
- Ayush Bagla** You see again, this is a very-very wide band. The band starts from Rs. 5,000 to Rs. 6,000 in many Government projects and in the affordable housing projects and goes up to a few lakhs in ultra-luxury projects, so it is very frequent.
- Ronil Dalal** Right, I was getting on the lower side, like you would say that Rs. 6,000 to Rs. 7,000 is the amount to take?
- Ayush Bagla** So the Sanitaryware and faucet component in new project could be anything from less than Rs.10,000 to Rs.25,000 which is the meat of the market.
- Moderator** Thank you. Next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh** If you could just help us understand the competitive intensity in the Sanitaryware space because the underlying demand has not been very healthy, so in that light how is the competitive intensity in that market?
- Ayush Bagla** You see the base of the top 3 players having a combined market share of 50% to 60% that has been constant for many years now. So historic brand appeal and current product innovation play a very vital role in keeping this intact.
- Abhishek Ghosh** Where it is coming from is that you have initiated a price hike in October, so that obviously talks about some amount of competitive intensity there, it is not very high, otherwise you would not have been able to take price hikes, but I am saying going forward also on a sustainable basis and annual price increase, is that a fair assumption to make?
- Ayush Bagla** See, we review a pricing every six months on two factors, any change in input cost and ability of the market to bear a price increase. So every six months a review is done and based on that a decision is taken.
- Abhishek Ghosh** And sir, could you just help me with the working capital numbers, I just missed which you have initially shared?
- Ayush Bagla** Inventory days declined from 52.93 days to 48.03 days and receivable days declined from 65.62 days to 58.35 days, the total working capital days declined from 118.55 days to 106.38 days.
- Abhishek Ghosh** Sir, these are still very fairly elevated working capital days, is there an endeavour or is there a scope to kind of bring it down and what should be levels or does the business requirement is such that you will need to maintain these kind of levels, how should we look at that?
- Ayush Bagla** We have a system of very prudent credit controls and it is fully automated part of the ERP system and that is the nature of the industry, but at the same time, we make sure that we are not selling to anybody based on credit for the sake of credit, we are selling our brand promise and credit is a very-very small component of that. In any case, all our sales are backed up by some kind of LCs, PDCs, in many cases advances, the dealer deposits, so the Company is always secured on the credit asset.

- Abhishek Ghosh** No where I am coming from is this 100 working capital is still fairly elevated, is there a scope given the nature of the business to get it down or is that the level that one will have to stay with?
- Ayush Bagla** The level will continue to be around this level and this will be a steady state and effort are always on to try and reduce by a few days every quarter, but this is a good steady state to be.
- Abhishek Ghosh** And just one last question from my side. Sir, the growth in tiles revenue has been very tepid at about 2% or 3% on a Y-o-Y basis, given that our base is also low and with Milo coming along, how should we look at that part of the segment?
- Ayush Bagla** Now we have a better geographical reach with the Milo plant being in Gujarat, so the AP plant caters to customers in South India and Milo to North, West and some parts of East India and Milo came in August 2018, so it has been just 5 months.
- Abhishek Ghosh** So this quarter, Milo should be up and running for this in terms of the utilization?
- Ayush Bagla** Yes, correct.
- Moderator** Thank you. Next question is from the line of Ashish from Invesco Mutual Fund. Please go ahead.
- Ashish** Sir, just wanted to understand your view on how the mix is going to move forward, because if I am not wrong, in the last few years, our tile and faucet business has grown at a much higher rate versus our Sanitaryware business and that is where our margin is basically on the gross side and EBITDA margins are hit, they have kind of come up from the highs in FY17, I guess. So going forward also you would think that the tile and faucets will grow at higher pace and the margins may not have bottom still for us, if you could explain that bit how this can shape up over the future?
- Ayush Bagla** You see, CERA started its journey as a Sanitaryware Company and the bulk of its strength sized core business is Sanitaryware. Sanitaryware continues to be the largest revenue and the main driver of profitability in the Company. At the same time, we are catering to a set of customers, which require additional products, both in faucets and tiles. So faucets and tile though a new business, we attained combined sales of more than Rs.500 crore. So Sanitaryware will continue to be main business both on revenue and on the EBITDA front. Faucet and tiles will be a driver because there is lot of headroom to grow.
- Ashish** In that scenario, then the gross margins or the mix kind of deteriorates further isn't it because the lower margin businesses will grow faster?
- Ayush Bagla** But on an absolute number, if you add the margins of the faucetware and tiles, they are also contributing.
- Ashish U** So the absolute may grow, but the percentage margins may not be sacrosanct as of now to have bottomed out?
- Ayush Bagla** So currently the 15%, 14.4% margin is the combination of all three business.

- Ashish** Could give us some outlook as far as the drivers that you see for the top-line of all of your three businesses. Given all of them are linked to real estate and we all know how things are, so if you could throw some light or give some qualitative comments on how things look for the mixed couple of years on this front?
- Ayush Bagla** You see, we feel that product innovation and technological innovation will be the main driver of growth over the next few years. So those who can produce tiles, faucets and Sanitaryware in a better design, larger product offerings, they will gain. Tier-2 and tier 3 cities are not as much hit as the major metros are hit in the real estate market and at the same time, affordable housing has become a very large segment where the number of toilets increase because of the size of the apartments are smaller. So we believe that improvements at the factory level, the changes in design and the upgradation of technology will differentiate us from other players. So the impact that we feel from changes in the real estate market will be minimal.
- Ashish** So you are saying that despite the fact that markets in general might be slow growing, you think that you will be gaining market share rather. So the growth will be ahead of the category or value terms rather?
- Ayush Bagla** Yes, our growth trajectory has been on if you compare the Y-o-Y numbers and we feel that we will continue this going forward.
- Moderator** Thank you. Next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade** Sir, just wanted to understand first on the capacity utilization for our as well as the JV plant. You mentioned that the tiles plant in South is at 90% utilization, but how about this Sanitaryware plant?
- Ayush Bagla** The Sanitaryware plant in Kadi which is the main plant is above 90% capacity utilization. The faucet plant also at Kadi is at 79% capacity utilization and of course the tiles plant in Andhra is at 90% capacity utilization.
- Achal Lohade** And in terms of the mix, can you help us with the outsourcing, which is in-house in Sanitaryware as well as faucet?
- Ayush Bagla** In Sanitaryware, it is almost equal, the mix of outsourcing versus own manufacture. In Faucetware also, it is almost equal, the ratio of outsourcing versus own manufacture, but this number does not provide a qualitative aspect to the question. Those products which are technologically sensitive which are high value and high margin, those are manufactured in-house, which are very-very QC sensitive. Those that are low tech and our QC teams add to other manufacturing locations can adequately check the quality those are manufactured outside and then there is a second layer of QC because all those products again go to our main factory and a second layer of QC is done on them. Only then, they are dispatched to customers.
- Achal Lohade** Why I am asking this is given the utilizations, how do you look at the capacity expansion program, what kind of capacity expansion are we looking at for FY20-21?
- Ayush Bagla** Currently, there is adequate capacity available both in-house and on an outsource basis with adequate QC control. So currently there is no

immediate plan to expand any capacity in-house and both on the JV and outsourcing front, there is additional capacity available.

Achal Lohade

And the mix what you said 50-50, is it in volume terms or value terms?

Ayush Bagla

In volume terms.

Achal Lohade

How about value sir?

Ayush Bagla

Value, the own manufacturing will be little higher because we are making technologically sensitive high value products.

Achal Lohade

And we hear from the market that there is lot of new capacities getting added in case of Sanitaryware, lot of these Morbi players are also expanding into Sanitaryware space, I just wanted to get some more colour from you sir?

Ayush Bagla

You see sanitaryware is a tough market to break-in because there are many factors involved, the CRM, after sales service, technicians. We have more than 400 technicians on our own roles which just look at after sales service. Then there is a brand promise, quality standards. Sanitaryware market is a very-very mature and brand driven market, so to make a dent in that market is very-very difficult for a new player.

Achal Lohade

And you pointed out Rs.70 crore of capex for FY19. What about FY20-21, should we work with the same number?

Ayush Bagla

Currently, that number is not yet fully finalized. As and when we have a final number in place, we will be sure to share it.

Achal Lohade

And just last question with respect to 'Senator'. What is the current mix or revenue coming from 'Senator' as a percentage of total Sanitaryware and how do you see it going forward given it is a premium positioning for us?

Ayush Bagla

You see 'Senator' and 'ISVEA' are recent launches in the last few years and previously, we had given out the statement that in 3 to 5 years, we expect about 15% of our sales to come from 'Senator' and 'ISVEA', so that is where it stands currently.

Moderator

Thank you. Next question is from the line of Pravin Sahe from Edelweiss. Please go ahead.

Pravin Sahe

As in the last question you have mentioned that there will be no much expansion plan in the sanitaryware and your utilization rate is 90% and also some premium players from the different subsectors are also coming in this segment. So how you are actually placed and positioned yourself to grow faster than the other players and compete with the new competition coming in this sector?

Ayush Bagla

As far as sanitaryware is concerned; it is well entrenched and matured market. The customer relies on after sales service, design innovation which is something that takes years and sometimes even decades to build. So having 15,000 dealers, then these large format stores, 140 dealers owned touch points, then 2,700 retailer owned touch points, these take decades to build.

- Pravin Sahe** So no expansion as you had mentioned on 90% utilization of your owned and outsource location, so what is the way forward, how you are actually planning to grow?
- Ayush Bagla** You see enough capacity is available in the industry, in both JV and outsourced models. So those products which we do not feel the need to manufacture in our own plant, which are not so technologically sensitive can always be manufactured in the JVs or obtained in outsource products. So there is enough capacity available there. That is why we feel that there is no capex required to increase our current capacity.
- Pravin Sahe** And also you are not expecting a good competition from any other premium player coming in segment, we are not expected to get impacted with that as well.
- Ayush Bagla** That is the nature of the industry; that to make a dent it take decades.
- Pravin Sahe** Sir, is it possible to give some steady state margin numbers for the Sanitaryware, Faucets and Tiles for you?
- Ayush Bagla** See the current margins are the best indicator. The current EBITDA margin, 15.68% is the best indicator.
- Pravin Sahe** So how much is Sanitaryware?
- Ayush Bagla** That split is not available.
- Pravin Sahe** You do not share?
- Ayush Bagla** Correct.
- Pravin Sahe** Secondly on inventory side, as you had mentioned that you have display centres, also retail owned stores, so inventory out there is of a Company owned or for the retail owned stores as well or how is it?
- Ayush Bagla** Those are display centres. The Company owned format naturally have Company inventory and the dealer and retailer owned format do not keep any other inventory other than what is the display products.
- Pravin Sahe** They do not sale from there.
- Ayush Bagla** No. Then, there is the entire ERP takes over from which depot to deliver, from where to deliver, where to source based on the customer's order, then the whole machinery of the Company takes over.
- Pravin Sahe** Okay. And lastly on the Sanitaryware as well, like there are lot of Government initiatives and all and definitely I can understand that is the low-end kind of the product installed or required there, but is that increasing the overall market of sanitaryware? This is because we are talking of Rs.4,000 crore of the market from the last couple of years. So are those initiatives is not increasing our entire market?
- Ayush Bagla** You see any number we put on the size of the market is only an estimate in the absence of any third-party authentic data. So we continue to just make our own estimates. Now, as far as Government order is concerned, getting

RSPs is most important because we are 35-year-old Company and we have passed all the quality standards not only in our own plants, but in all Government departments. We have been empanelled in most Government departments and we are eligible to bid. So then this question of the right product and price being suited by that particular Government department or the contractor and that is the ongoing process. That market is of course very large and that is the ongoing process. Our efforts are always on.

- Moderator** Thank you. Next question is from the line of Pratik Poddar from Narnolia Financial Advisors. Please go ahead.
- Pratik Poddar** Sir, I am not sure whether you have given the numbers, but can you give me the revenue mix for the segments, for Q3?
- Ayush Bagla** Yes, of the Rs.318 crore which was the total revenue for Q3, 52.23% was from sanitaryware, 23.64% from faucet, 20.63% from tiles and 3.5% from wellness items.
- Moderator** Thank you. Next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak** Sir, do you have a measure of reach like how many pin codes, do you have direct, indirect reach, do you measure that, do you have some metric?
- Ayush Bagla** Yes, our 15,000 touch points cover the entire country and these are increasing every quarter, so we continue to add retailers and dealers every quarter.
- Dheeresh Pathak** But 15,000 touch points would not cover all the pin codes, right? This is because lot of the FMCGs and all have millions of touch points, so how do you say that 15,000 touch points cover all the country?
- Ayush Bagla** Out of the 700 districts in the country, we cover more than two third.
- Dheeresh Pathak** And how is this increasing, the 15,000 touch points, per year how many more touch points are you adding?
- Ayush Bagla** I will give you the number that was added between April and September. On April, it was 13,161 which became 13,974, little more than 800 were added in 6 months.
- Dheeresh Pathak** You add about 1,600 per year and that is the normal run rate?
- Ayush Bagla** No, that is again not a linear number. It keeps on changing.
- Dheeresh Pathak** And earlier to a question, you mentioned that as a moat or as a competitive advantage you have some 4,000 technicians on Company roles who look at after sale services. So these are servicing what, the retail customer or the wholesale or builder channel, whom are they going for after sale service?
- Ayush Bagla** We have about 413 technicians on the Company's role and these are based across the country. Individual customers, the end consumer can make complaints through our nation-wide 24-hour 1800 number or through our app, so we have an app which anyone can download and make a complaint about the product and our technician between 24 and 48 hours later lands up to try and solve that issue. Then there are dealer apps, any end consumer

can make a complaint to a dealer and the dealer then tells the technician to go and visit the end consumer.

Dheeresh Pathak

You said 4,000 or 400 technician.

Ayush Bagla

400, 413.

Moderator

Thank you. Next question is from the line of Manish Poddar from Reliance AIF. Please go ahead.

Manish Poddar

I actually wanted to get this number which is mentioned 14,000 are dealers, of which about 11,000 are for sanitaryware. How much would be the universe let us say for sanitaryware in India?

Ayush Bagla

This number we gave out was a mix of dealers and retailers. So out of this 13,974, about 2,600 are dealers and 11,300 are retailers and the total universe again is tough to give you the number. Total universe in the country across all brands is tough to give the number.

Manish Poddar

But broadly, if you have to look at, penetration odd reach, where would we be standing because if you have been adding 600 to 700 odd dealers in the last 7 months and even if I assume, a 1,000 odd dealers addition annually, you should get about 5% to 6% volume growth just by these additions which is not really visible if you look at 9 month odd number. So I am just trying to understand, first is the penetration reach and second is the corollary with volume growth versus penetration expansion.

Ayush Bagla

The dealers also do not offer it at a steady state. There are some dealers whose sales go up, some whose sales go down, some who are exclusive, some who are multi-brand. So addition of dealers translating into addition in sales is not a linear formula.

Manish Poddar

And any idea on this universe point or let us say how much of these dealers would be multi-brand versus you know, both dealer and retailers how many of them would be multi-brand versus exclusive?

Ayush Bagla

Most of our dealers are multi-brand.

Manish Poddar

And earlier you mentioned that this 4,000 odd pieces capacity plant got sold for Rs.250 crore, I thought it got sold for Rs.100 odd crore to Jaguar from Euro ceramics, is this number right?

Ayush Bagla

We are talking about different plants which got sold to Lixil in Andhra Pradesh, 4,000 units per day.

Manish Poddar

With a 300 day running, is that the way one should look at it?

Ayush Bagla

We do not know the specifics about the plant, but that is the capacity. Again, this is the anecdotal information.

Manish Poddar

And how would you say, I am just trying to understand your universe, this 14,000 odd blended across segments, how would it stand against let us say player like Jaguar, when you are trying to compare because Jaguar in the last 2 to 3 years has made significant inroads in this sanitaryware segment, so I am just trying to understand where would they reach be?

- Ayush Bagla** Correct, again the combined market share of the top 3 players is constant between 50% and 60%. So there is not much dent made by any new player in that and dealers of course are essential, retailers are essential to generate availability in the last mile, but again it is brand promise which is the most important, so for us that is what we concentrate on. In dealers, it is not the only metrics that increase our sales.
- Manish Poddar** Is that right because I thought obviously the other two players have lost market share, but I thought Jaguar has entered the segment only 2 to 3 years back and now they are at somewhere in that Rs.250 to Rs.350 odd crore ballpark, somewhere in that range of sales, only in sanitaryware.
- Ayush Bagla** We do not get any authentic information from any third party on top-line of each player, so it is difficult for us to say anything about any other player.
- Manish Poddar** Just one final bit if I may, this EBIT margins which now we are in this 11% to 12% band, earlier used to be in the 14% to 15% band. Also the gross margins have not really eroded in these two years and with higher outsourcing, should one assume these are the base margins going ahead at least? Or you feel that because of competition or increased paper demand, you will have to give more discounting and there is still room for margins to stabilize?
- Ayush Bagla** We view prices as one of the very small factors which generate sales, we do not make it defector which generate sales. So our investments are again in the last mile customer connectivity, aftersales service, availability of customer touch points, the 1800 number, the CRM management etc. So that is where our focus lies and price is a very small part of that entire equation. So to come back to the EBITDA percentage, we feel that the current EBITDA percentage is the good indicator of the future.
- Moderator** Thank you. Next question is from the line of Aditya Shah from Investec Capital. Please go ahead.
- Ritish** Sir, this is Ritish here. Sir, I have two questions. One is you elaborated on technical consultants, you gave a number of 400 odd. Sir, what exactly are the skill sets of these technical consultants?
- Ayush Bagla** They are essentially trained by the Company. We have 25 people training this 413 technicians and they are plumbers, so they go and inspect any customer complaints and then there is a customer complaint protocol, whether the customer complaint can be rectified on the spot, whether the product needs repair or replacement, so there is a full protocol defined.
- Ritish** Sir, if I had to put it the other way round, if one of the larger plastic piping Companies were to get into sanitaryware, faucetware as a segment, do you think that other Companies will also have similar sample set of technical consultants wherein the skills that is not very different?
- Ayush Bagla** This is the question of CRM for any Company to manage the customer's relationship and after sales service is important component of any CRM. So for us we would not be able to talk about any other Company, but we feel that it is essential part of our solution that we provide to the last customer.
- Ritish** Sir, let me put it the other way. Do you think this is a moat for our business wherein it becomes difficult for any other large player with distribution and

brand to get in given we have such a solid 400 plus technical consultants on ground?

Ayush Bagla

Yes, it is a significant added advantage for us. That is what our customers keep on telling us and especially large housing societies, townships, etc., we have annual service day, camps, etc., so our customers keep on telling us that it makes the huge difference in their selection for CERA as OEM supplier for sanitaryware product.

Ritish

Sir, my second question is what is our policy on adding incremental distributors and dealers, so I think in one of the questions regarding pin code, you indicated that we touch upon most of the pin codes. So is it something which is region specific which is on per kilometre basis or is it revenue specific as there are multiple instances what we have heard is basically there are multiple dealers in a particular region and the dealer's revenue share actually goes down and hence it forces them to have multiple brands rather than to stick with the strong brand like CERA. Sir, how should one look at this?

Ayush Bagla

For us, the decision to appoint a retailer or dealer is based on its past track record because there are very few geographies that are important for us and not already covered. So geography is less of our concentration; its past track record is more of our concentration.

Ritish

But sir, is there any number like, if you want to do away with the concentration risk for a particular distribution which has got very big, then you decide that you might give away the share of this business to the dealer which is the largest dealer for that distributor. You might elevate him to a distributor. What is the thought process on that side sir?

Ayush Bagla

We do not have any distributor driven model, we have a dealer based model. So if a dealer is generating sales, we encourage that rather than try and take away any sales from him.

Ritish

So from factory directly hits to the dealers, we do not have any intermediary called distributor in the supply chain?

Ayush Bagla

No, we do not have any distributor.

Ritish

And my last question was on capital allocation. Sir, two years back when we forayed into tiles, we had indicated that if the business does justify our ROCE target's IRR, only then we will deploy incremental capital. I think it is still early, but sir, any thoughts on how the business is going. Is it on anticipated lines, sir if you could provide some colour over here?

Ayush Bagla

This is a very ROCE driven Company. So all businesses need to pass the test and 'tiles' of course has helped us in many ways. It has helped us acquire some very large customers across the country which were not our traditional customers. So 'tiles' has helped the faucet and sanitaryware business. And on the standalone basis, the tiles is performing, the capacity utilization is high. So the 'tiles' business is performing and we will continue to perform going forward.

Moderator

Thank you. Next question is from the line of Arun Baid from BOB Capital. Please go ahead.

- Arun Baid** Historically till the last quarter we used to believe that 15% to 16% blended revenue growth is sustainable for us. Based on the commentary which we are right now, it looks it is going to be very tough, is that correct understanding?
- Ayush Bagla** See one cannot talk about the future in the same way that we can about what has already been achieved and again the industry growth percentage of 10% is only an estimate. We do not know whether it is 8% or 10% or 12%, it is just a rough estimate because there is no authentic data from any third party. For us, to hold on to our leadership position in sanitaryware, in terms of market share, in terms of value, volume, etc., that is the main aim and that we continue to perform.
- Arun Baid** In case of tiles and faucets, at least there the growth should be pretty high because the base is very low and as you mentioned very correctly, the size is pretty big for us to capture. So there at least do you think that we can be in high double digits?
- Ayush Bagla** Yes, even if you look at the numbers for faucetware for this quarter, the growth was 23%.
- Arun Baid** But not in tiles, any reason for that? Because the base size is very low and the market there is much bigger?
- Ayush Bagla** Yes, the market is bigger and tiles is much more commoditized. So the available opportunity in tiles is huge, available opportunity in faucetware is also huge. So we expect good things to happen there, but to put a number on it currently will be a little difficult.
- Arun Baid** Fair enough but at least going ahead, forget this quarter, but at least going ahead the tiles segment should see similar kind of growth what you used to see a quarter ago?
- Ayush Bagla** Yes, we expect tiles business to grow dramatically but again unable to put a number to it.
- Moderator** Thank you. Next question is from the line of Sriram R from Sundaram Mutual Fund. Please go ahead.
- Sriram R** Sir, couple of questions from my end. What is driving the growth of our wellness range, if you could give some colour on how is the growth trajectory we in about couple of years from now, where do we see that space? My second question is that this time 'Other income' is a little higher at Rs.4 crore, is that is the number that you will follow in subsequent quarters also?
- Ayush Bagla** The wellness items you are talking about is absolute at the luxury premium end of the market, which are shower partitions, etc., which are very-very expensive and high-end items. So of course we will be very interested in this segment to grow and we have achieved a growth of 81% this quarter. That is one. Secondly, on the 'Other Income' as we have done a M2M of the liquid investments that we have made, so we have Rs.118 crore of liquid investments and as per accounting guidelines, we just do a M2M every quarter, so we have done M2M and that is the reason the 'Other income' is high.

- Sriram R** So this wellness range which you are saying, currently the real estate luxury space is not that great, right, so where are we seeing the demand from. Is it because of the institutions like hotels and all?
- Ayush Bagla** Again, this is from a very small base, so you have seen 3.5% of our sales is the wellness products. So on a percentage basis, you will see a lot of growth and bulk of it is the replacement market, this shower panel, separators, etc., these are expensive items but also used by all categories of customers.
- Sriram R** So the bulk of the growth is coming from the replacement, not from the OEM you are saying?
- Ayush Bagla** Correct.
- Moderator** Thank you. Next question is from the line of Akash Vora from Raj Financial. Please go ahead.
- Akash Vora** Sir, could you just give me the breakup of the segment of middle-lower, middle-middle, upper-upper and premium category?
- Ayush Bagla** These are all again estimates, 40% of our sales are from the mass market and of which 25% is the upper mass market, 20% is the lowest and 15% is the premium market across sanitaryware, faucets and tiles.
- Akash Vora** 15% is the premium, so do we see this 15% base going to 20% or 25% in next couple of years for the premium category?
- Ayush Bagla** Our launch of 'Senator' and 'ISVEA' are efforts in that direction and even within CERA there are 27 different series, which are essentially differentiating the market based on price and design. So our endeavour is always to take our customer to the next higher series.
- Akash Vora** Sir, another question is on tiles, I am sorry if it is repetitive but just a concern over the tiles growth we saw in this quarter, is it one-off or we are seeing some challenges in that business because as earlier participant and as we have seen that the base is low and still we are not able to grow. Sanitaryware has grown faster than the tiles, so what are the challenges we are facing or is it one-off things?
- Ayush Bagla** That is why whatever factory has been created in tiles, we kept them in a JV format. We did not have them and our partners are specialists in tiles production with previous track records and histories of tile production. At the same time, our arrangements allows us to offtake the entire production and offer them to our consumers which are overlapping with sanitaryware and faucets. Going forward, we expect the top-line on tiles to increase.
- Akash Vora** So we are seeing this quarter was a kind of one-off for tiles or we are facing some proper challenges in that area. We are not able to move because we have seen in past couple of years, I know the base was low, but we have seen some healthy double digit growth in tiles, so can we revisit those numbers?
- Ayush Bagla** Both our plants are operating at above 90% capacity utilization. So whatever has been produced has been sold. Going forward the pace of growth might increase and become at par with sanitaryware and faucets, yes that is correct.

- Akash Vora** We are not seeing any specific challenges in tiles as you are mentioning that it is just the base we have increased, is that is the reason?
- Ayush Bagla** No there is no specific pressures that we are seeing in tiles; it is the normal reflection of the market.
- Akash Vora** On the demand side, do we see the demand coming back in next six months because it has been almost 2 to 3 years that we have seen a flag of demand, what is your anticipation in demand coming back in a healthy way, probably say six months down the line or what is your view on that?
- Ayush Bagla** For our products, the way we are going about design differentiation and technological innovation, we have current demand which we are fully catering to, so we are fully satisfied in the manner in which we are responding to the market place.
- Akash Vora** But we are not seeing that kind of healthy demand which we have seen in past and I appreciate you are doing fantastically in such slag movements, we were doing very good growth but do we see the demand coming back significantly over next six months or so, the real estate demand or the construction demand, what has been lagging in last couple of years?
- Ayush Bagla** You see in sanitaryware, which is the bulk of our business, we have pricing power and because of the brand promise, there is lot of customer pull as well. So there are many OEM developers who have made up their mind to buy CERA products. So for us demand is not the issue. Continuing what we have been continuing is the way forward for us.
- Akash Vora** And sir, lastly, couple of sanitaryware manufactures are planning to get into pipes or any related products, so are we also planning to go or we will be focusing on these three segments?
- Ayush Bagla** No, we are totally focused on our core competence which is sanitaryware, faucets and tiles currently.
- Akash Vora** So no plans to enter into any relative segments in near future, right?
- Ayush Bagla** Currently, there is nothing. If there is a change we will surely keep everyone informed.
- Moderator** Thank you. We take the next question from the line of Sonia Lalwani from Purnartha Investment. Please go ahead.
- Sonia Lalwani** I have two questions. Kerala is a big market for CERA, so are you seeing revival of replacement market there after flood?
- Ayush Bagla** In Kerala, there was a temporary issue which happened in Q2 and subsequently the markets are back where they were before the incident. So we are seeing the markets back to normal currently.
- Sonia Lalwani** Sir, if you can share the proportion of the revenue that has been contributed by Kerala in this quarter?
- Ayush Bagla** We do not have State-wise revenue, we can give you North, South, East, West revenue. So 45% of our total revenue came from South India.

- Sonia Lalwani** And has the proportion changed over the last quarter?
- Ayush Bagla** No, it is similar, it is inconsistent.
- Sonia Lalwani** Sir, in one of the questions asked by the earlier participant, you said Milo tiles in Gujarat will start picking up. So sir just wanted to understand if the 2% - 3% growth in the tiles business was because of supply issues or the demand issues?
- Ayush Bagla** Tiles is a much more commoditized market beyond sanitaryware and faucet because the brands are not visible, the manufacturing process is across, most of the manufacturers are similar, the technology is similar and the end product is similar. So based on that very few manufacturers have any real pricing power in tiles and CERA is a new entrant in tiles. We are offering the same tiles to the same set of customers via faucet ware and Sanitaryware and we felt the need to have some capacity in Western India which is why we have gone for the JV with Milo tiles.
- Sonia Lalwani** Sir, as soon as Milo tiles starting picking up, so we will see more of growth in the tiles business in the North and East India.
- Ayush Bagla** Correct.
- Sonia Lalwani** Basically, this is of the supply issues rather than the demand issues.
- Ayush Bagla** See currently, we are operating at above 90% capacity in both the factories, both in Milo and Anjani. So as and when the demand picks up that capacity might go higher or some outsourcing might take place.
- Moderator** Thank you. Next question is from the line of Chirag Lodaya from Valuequest Investment Advisors. Please go ahead.
- Chirag Lodaya** Sir, my first question is towards these segmental margins. I understand you do not share segmental margin, but if you can just help me understand, if say tiles margin is 'X', what is faucet margin, 'X plus' as well as sanitary margins that would be really helpful?
- Ayush Bagla** See sanitaryware market is again very different from the faucet and the tiles market. We have pricing power in the sanitaryware market because of both the product and the history of being a 35-year-old Company and brand. So the margins are highest in sanitaryware. The raw-material component in sanitaryware is only 14% of sales. So margins are much higher than sanitaryware than faucet and of course tiles is the lowest.
- Chirag Lodaya** But any differential if you can just share? 'X plus 5', 'X plus 6', any number?
- Ayush Bagla** That number is not available.
- Chirag Lodaya** In tiles what would be your volume for first nine months?
- Ayush Bagla** The capacity of Anjani tiles is 10,000 square meters per day. The capacity of Milo is 7,250 square meters per day and both are operating at above 90% capacity utilization.
- Chirag Lodaya** If you have the ready number that would be really helpful.

- Ayush Bagla** That number is not ready simply because Milo is not even 5 months old.
- Chirag Lodaya** No, actual volume sold during first nine months, that is what I want.
- Ayush Bagla** We do not split the volume on tiles or sanitaryware or faucet.
- Chirag Lodaya** And in tiles, what is the contribution to institution versus retail?
- Ayush Bagla** Again, that 70-30 breakup is the overall Company breakup, 30% to direct OEM and 70% through dealers and retailers.
- Chirag Lodaya** Now we are seeing all this tiles players are getting very aggressive in sanitaryware as well as faucet, so are we seeing any competitive intensity because of that?
- Ayush Bagla** Tiles is a much more commoditized market than sanitaryware and faucetware where pricing plays a larger role and even the largest market share players have a low pricing power. So scale size of the business, etc., makes a different size of production facility and ability to price cheaply, closeness to the customer because again logistics cost is the sizable cost in tiles. So those factors play a larger role in tiles and in the faucet and sanitaryware.
- Chirag Lodaya** So we do not see any major impact because of other players getting into sanitary as well as faucet, to our market share at least?
- Ayush Bagla** So far the impact has been minimal.
- Moderator** Thank you. Next question is from the line of Rahul Agarwal from VEC Investment. Please go ahead.
- Rahul Agarwal** So for CERA water-heaters, what segment the sales from them is included in?
- Ayush Bagla** This is a new initiative we just started. By March 2019, we expect a sale of 30,000 water heater and some of the retail outlets, distribution outlets are complimentary.
- Rahul Agarwal** Complimentary as in?
- Ayush Bagla** Are already retailers of either faucet or tiles or sanitaryware.
- Rahul Agarwal** So where would you include the revenue from this, obviously very small but just wanted to understand in terms of...
- Ayush Bagla** We will probably include it in the wellness segment.
- Rahul Agarwal** And in terms of long-term planning on the durable side, is there long-term plan to launch more products on the consumer durable side?
- Ayush Bagla** No, other than this water heaters there are no other plant currently.
- Rahul Agarwal** And water heater are we getting it, again it is an outsource plant like how is that? Are you buying it somewhere? It is a bought-out kind of a model? How is the revenue and the cost model here?

- Ayush Bagla** The cost model is completely QC based outsourcing.
- Rahul Agarwal** It is all India based?
- Ayush Bagla** Yes, India based.
- Rahul Agarwal** And the plan over next 3 years, you plan to have like significant number here or it is going to be more ancillary business?
- Ayush Bagla** It is just a launch at this stage. We will wait for the outcome over the next few months and then decide the strategy.
- Rahul Agarwal** But the rationale of getting into this was essentially to again service the entire bathroom and hence you thought that this is the product gap, is it? What was the rationale to guide into this?
- Ayush Bagla** Rationale and ability to reach so many customer touch points immediately because of complimentary distribution set up.
- Moderator** Thank you. Next question is from the line of Omkar Kulkarni, Individual Investor. Please go ahead.
- Omkar Kulkarni** Can you help me with the current ROE and ROCE of the Company?
- Ayush Bagla** ROE and ROCE, we will give you on an annualized basis for March 18. ROCE for March 18 was 23.3% and ROE for March 18 was 18.1%.
- Omkar Kulkarni** If I am right, then it has been coming down over years, right, so any reason for that?
- Ayush Bagla** No, it has been consistent in the mid-20s, ROCE has been consistent. Also if you see our liquidity reserves have been growing, 3 to 4 ago, the liquidity reserves were nowhere close to that Rs.118 crore we have in liquid reserves currently where the returns are much lower.
- Moderator** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.
- Ayush Bagla** It was a pleasure to address all the stakeholders and we will be happy to interact with stakeholders on one-on-one basis if they have additional queries that were not answered or if there any granular data required by anybody, so it will be a pleasure to interact and Citigate is helping us put this thing together. So thank you very much Citigate. Thank you.
- Moderator** Thank you very much. Ladies and gentlemen, on behalf of Cera Sanitaryware Limited, we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.
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