Cera Sanitaryware Limited

Q1 FY24 Earnings Conference Call Transcript

August 04, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Q1FY24 earnings conference call of Cera Sanitaryware Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mayank Vaswani of CDR India. Thank you, and over to you Mr. Vaswani.

Mayank Vaswani: Thank you, Zico. Good morning, everyone, and thank you for joining us on the earnings call for Cera Sanitaryware Limited for the Q1FY24 earnings which were announced yesterday. We have with us today the management team comprising Mr. Ayush Bagla, Executive Director; and Mr. Vikas Kothari, CFO of Cera Sanitaryware. We will start with brief opening remarks from the management, following which we will open the call for Q&A. A quick disclaimer before we begin. Some of the statements made in today's conference call may be forward-looking in nature and a detailed note in this regard is contained in the results documents that have been shared with all of you earlier.

I would now turn the call over to Mr. Ayush Bagla for his opening remarks.

Ayush Bagla: Good morning, everyone. The earnings for the quarter ended June 30, 2023, were adopted by the Board of Directors yesterday, August 3, 2023. The earnings documents have been released to the stock exchanges.

During the quarter, we witnessed encouraging demand for our products as the overall replacement demand remained positive. Cera's product and design emphasis allows us to focus on the B2C segment where it can truly monetize its brand promise. Over the last few years, all efforts have borne fruit to decouple Cera's revenue growth from fluctuations in interest rates and housing demand, thereby insulating it from real estate demand cyclicality.

Despite the high base of last year, Q1FY24 revenues are higher by 7.94% on a Y-o-Y basis. The gross margin increased from 53.70% in Q1FY23 to 54.71% in Q1FY24. EBITDA was higher by 38%, as it increased from INR 61 crore to INR 84 crore. EBITDA margin increased from 15.4% in Q1FY23 to 19.01% in Q1FY24.

Our stated objective was to increase annual EBITDA margins by 50 to 70 basis points each year. We have surpassed our stated objective, as the increase in the EBITDA margins in FY23 has been more than 100 basis points despite advertising spend in the year increasing from INR 32 crore in FY22 to INR 57 crore in FY23.

At present, our manufacturing facility continues to function at high utilization levels. During the quarter, the sanitaryware plant capacity utilization was at 100%. In faucetware, the capacity utilization was at 106% during Q1FY24.

The faucetware facility expansion program to take capacity to 4 lakh pieces per month is nearing completion and will begin enhanced production from August '23 in a staggered manner with full production expected by March '24. The cost of the project was INR 69 crore, with project management techniques used to crunch costs, the completed cost will be close to INR 58 crore. The product mix planned is coloured SKUs, quarter turn SKUs, PVD SKUs and a few more SKUs that can be taken in from outsourced partners. This will enrich our product mix further.

In Q1FY23, China imports were INR 10 crore or 2.4% of sales. In Q1FY24, China imports were INR 5 crore, 1.2% of sales. Cera was already one of the lowest users of products made in China, and with availability of manufacturing infrastructure in-house, the percentage of Chinese imports to sales has been continuously declining. In a business which is brand-driven, the fulcrum of success is manufacturing quality, plant efficiency and new product-led growth.

With regard to capacity expansion for manufacturing sanitaryware, a fully aggregated land parcel in Gujarat, historically owned by a single owner is in due diligence. We expect title documents to be executed and other approvals over the next three months.

During Q1FY24, no price hikes were undertaken. Our peer group companies increased prices in October - November 2022, while Cera did not. During 2021 and 2022, three rounds of price hikes were undertaken by Cera, which were all a demonstration of pricing power. Currently, we are capitalizing on the market share gained over the last two years. Topline increase and margin expansion are the current goals in sanitaryware.

Raw materials, like China clay went up by 18% and feldspar by 3%, while Plaster of Paris and glaze went up by 2% and 3% in Q1FY24 as compared to Q1FY23. The zinc went down by 35%. In faucetware, brass prices went down by 7% and Zamak went down by 31% as compared to Q1FY23. Despite changes in input costs, our increasing plant efficiency ensured improved gross margins in Q1FY24 of 54.71% as against 53.7% in Q1FY23.

Due to availability of gas from isolated wells near our plant, the pricing of gas from GAIL continues to remain below market and will remain so in the future. Average gas prices have gone down from INR 35.97 per cubic meter in March 2023 to INR 29 per cubic meter in June 2023. Normally, GAIL supplies 50% of Cera's gas needs, however, in Q1FY24, GAIL provided 77% of the gas requirements of the sanitaryware business. Sabarmati, a JV of BPCL and GSPC, pricing went down from

INR 58 per cubic meter in March 2023 to INR 46 per cubic meter in June 2023, supplying 23% of the gas needs of the plant. The Q1FY24 weighted average cost of gas is INR 34, much lower than industry. Gas costs constitute 1.83% of Cera's top line.

Our focus on ESG began in 1995 with installation of a wind energy facility. Capacity was added gradually, and a solar plant was installed in 2014. During Q1FY24, 94% of the energy needs of the two manufacturing facilities were met through in-house renewable energy sources.

The ‘Retailer loyalty program’ was launched by Cera in Q1FY23, which has now completed 15 months. More than 15,300 retailers have uploaded 1.85 lakh invoices.

The feedback received from retailers has helped us in understanding the consumers' changing demands, geographical segmentation of SKUs, and evolution of the rewards program to retailers. Besides standardizing invoices, in Q1FY24 of the total retail sales of INR 245 crore, more than INR 73 crore, which is 30% of retail sales in sanitaryware and faucetware have become eligible to receive rewards through this program.

After the success of the loyalty program, a similar program was launched for plumbers across India. Cera has been conducting training workshops for many years now, imparting installation and product knowledge to plumbers. A new program, where rewards are provided to plumbers who recommend and facilitate the sale of Cera products is now active. The program communications include program posters at retailers and dealer counters, and a mix of communication channels, which include SMS, phone calls, program creatives and in-person meetings by sales and marketing teams.

New product introduction is one of the important growth levers for Cera. During FY22, 72 new products were launched. The average number of products launched historically used to be below 100. During FY23, 699 new products were launched. With the sharp pickup in new design and products launches in the last two years, a considerable amount of resources have been deployed at the manufacturing level, and at the customer experience level. During Q1FY24, substantial efforts have been made to ensure the products launched in the last 24 months penetrate deeper into the dealer network and in consumer buying decisions. This is very similar to the route adopted by most FMCG companies.

Our highest ever advertising spends was in FY23 of INR 57 crore at 3% of sales. The budgeted publicity spends for FY24 is expected to be INR 65 crore, at similar percentage of sales. Cera's share of voice was lower than its share of market, and with the increase in advertising expense, the share of voice is getting closer to its share of market. Publicity spends, which were INR 11.75 crore in Q1FY23, are now INR 11.02 crore in Q1FY24.

Population centres of 17 lakhs and above, which are Tier 1 cities, constitute 33% of sales. Population centres of 3 lakhs to 17 lakhs are Tier 2 cities, with 22% of sales. Centres with population below 3 lakhs are Tier 3 cities with 45% of sales.

We can go over the financials:

Revenue from operations in Q1FY24 were INR 427 crore versus INR 396 crore in Q1 FY23, an increase of 8%. EBITDA, excluding other income, was INR 68 crore in Q1FY 24 versus INR 61 crore in Q1FY23, an increase of 11%. The gross margin was at 54.71% in Q1FY24, against 53.7% in Q1FY23. Profit after tax was INR 56 crore in Q1 FY24 versus INR 40 crore in Q1FY23, an increase of 40% Y-o-Y. EPS for Q1 for FY24 was INR 43.35 versus INR 30.47 in Q1FY23.

For Q1FY24, 53% of the topline was from sanitaryware, 35% from faucetware, tiles represented 11% and wellness 1%. On a Y-o-Y basis, sanitaryware revenues registered an increase of 7% faucetware revenues increased by 8%, tiles increased by 11%, and wellness increased by 22%. The sanitaryware and faucetware verticals remain the bedrock of business with contribution of 88% to our overall revenues.

The classification of overall sales in Q1FY24 was 45% in the premium category, 31% in the mid-category, and 24% in the entry category.

Inventory days in Q1FY24 were 74 days compared to 73 days in Q1FY23. Receivable days in Q1FY24 were 28 days versus 26 days in Q1FY23. Payable days in Q1FY24 were 30 days against 39 days in Q1 of FY23. Therefore, net working capital days in Q1FY24 was 72 days versus 60 days in Q1 of FY23. In this quarter, the availability of product ensured there was no element of lost sales.

This is the ninth straight quarter with no element of lost sales. In the current year, the capex budget, other than the brownfield faucetware expansion and the proposed Greenfield sanitaryware expansion program is at INR 35 crore, of which INR 5 crore were spent in Q1FY24.

As on June 30, 2023, our cash and cash equivalents stood at INR 755 crore against INR 566 crore as on June 30, 2022, registering an increase of INR 189 crore or 33%. Positive cash flow for Q1FY24 has been INR 54 crore as compared to INR 48 crore Y-o-Y.

In conclusion, I would like to say that due to the combination of internal factors, product throughput maximization, brand salience, design differentiation, as well as the macros of home improvement, Cera would be able to monetize all the growth drivers that present themselves.

I would now request the moderator to open-up the lines for Q&A. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Archana Gude from IDBI Capital.

Archana Gude: I have 2-3 questions. Sir, in the opening remarks you said that 699 new products were introduced and now the efforts will be on getting the deeper penetration of the products. So, can you help us understand if we should expect a similar trajectory of these new products for coming years? And also, is it possible to give some colour in terms of the new products launched by our key competitors?

Ayush Bagla: Normally, we would launch between 75 to 100 products every year. Last year, we launched 699, so 700 products were launched last year. Now, making 700 products part of the consumer psyche, then part of dealer displays, dealer promotions and manufacturing those 700 new designs with completely different functionality and on design aesthetics is a whole mammoth exercise that is currently going on. So, this will occupy, I think, all of this year, which is why in this quarter we chose not to launch a single product.

Now in the past, you know that the industry has an average of 10% to 12% of sales from new products. That number for Cera has historically been 22% to 24%. Last year, in some quarters, it was 36%, in some quarters it was 39%. So, this quarter this number is around 29% for Cera. So almost one-third of our revenues are revenues which we did not have earlier. So new products are responsible for that. And in most cases, you'll find that new products are coming in with higher functionality and design aesthetics at higher price points.

So whatever margin movement you're seeing is all because of product mix changes and that will be the focus for the next medium term for the Company. Keep changing the product mix. Now, in any case, our faucetware number of products have crossed 1,000 products. And sanitaryware, I can give you the exact number of products for both sanitaryware and faucetware. In sanitaryware, we are 572 products, in faucetware we are 1,584 products. So, keeping this kind of product portfolio and there's plenty of opportunities to upsize the consumer to higher price points. So that's where the focus is.

Archana Gude: And sir, my second question is what is Cera's role while assisting channel partners to build the brand stores, and how many number of brand stores currently we have across, like Style Galleries and Hub and Cera Tile centres, etcetera?

Ayush Bagla: So, we have 3-4 formats currently. One is a 7,000 to 15,000 square feet Company-owned format. We have eight of those in large cities and centres where we have large sales. Then we have around 1,500 and 1,000 square feet model, which is dealer owned and dealer managed where Cera is not really part of the opex or capex. We have 184 of those. And then we have a retailer model, some are shop-in-shops, some are exclusives, some are multi-brands. We have 781. So, the aim is to double these 184 and 781 over the next three to four years. And we are also toying with various models, hybrid model, then 1,500 square feet and above model. There are plenty of models that we are toying with.

Archana Gude: Correct. And sir, lastly, how much expenses should we expect for the 3 Company-owned Style Studios at Bangalore, Morbi and Chandigarh?

Ayush Bagla: See, for the dealer-owned, dealer-managed, there is no capex or opex from Cera, nor is it for the retailer-owned, retailer-managed. For the Company-owned, in bulk of the cases, the real estate is not bought anymore. It is all leased. So, it is just the maintenance costs and, of course, the rental, electricity costs, sales people cost, technicians and the rental. So that is all part of the P&L, there is no real capex involved. It becomes a are less than INR 1.5 crore, INR 2 crore per store.

Moderator: Our next question is from the line of Praveen Sahay from Prabhudas Lilladher.

Praveen Sahay: The first question is related to the growth in the sanitary and the faucetware. This quarter we had given a single digit of a growth. So, way forward, also the guidance is of 17% to 19%. So next nine months are you expecting higher than 20% of growth? And from where actually you are expecting such kind of growth?

Ayush Bagla: So, if you look at the Q1 numbers, the growth percentage looks at 8%, but the absolute number is still INR 50 crore. Last year's Q1 has had a high base effect because it was a 74% increase from FY22. As far as growing 17% to 19% annually, we said that from INR 1,440 crore we will become INR 2,900 crore by September '25, that goal remains intact, and there might be some seasonality effect in some quarters. That is why we do not give out a Q-on-Q guidance or even annual guidance. But this year's annual guidance, last year we grew at 25%. This year, even if we grow by 20%, it will mean adding INR 360 crore of sales. So, it will all equalize at the end. In any case, you will find that Q3 and Q4 are about 60%, 62% of sales each year.

Praveen Sahay: Okay. And also in the opening remark, you said about the replacement demand were very strong. So how much that contributes to your revenue? And the way forward also, you are expecting a very strong growth. And can you give some numbers to that as well?

Ayush Bagla: Currently, both the project demand and replacement demand are very, very strong and we resist the temptation to take on significant portion of project demand because that results in change in the margin profile. So, I can give you some numbers as well. Project demand was about 35% of sales and replacement demand was about 65% of sales. Now going forward, there is no thinking to really change this ratio because that impacts the margin profile.

Praveen Sahay: Okay. So, this is a historically level, 65% is the replacement for you and you wanted to continue with this, right sir?

Ayush Bagla: Right. But I'll tell you why this is important. In periods where there is a surge of project demand, this ratio can change. But to be able to resist that surge in project demand is very difficult, but we do not fall prey to any of those sudden market trends. We make sure that, hovers around 60% to 65%.

Praveen Sahay: And can you quantify the numbers for advertisement expense for this quarter and last year the same quarter?

Ayush Bagla: This quarter, FY23 was INR 11.02 crore. Last year was INR 11.74 crore.

Praveen Sahay: And also, can you give the capex for a brownfield and the greenfield for this year and next year?

Ayush Bagla: So, capex for faucetware, which was earmarked at INR 69 crore is now completed at INR 58 crore, and that started in July '22, it will get completed in August '23. In addition to that, there is a capex in our current facilities and in customer touch points all totalling INR 35 crore for FY24. The breakup of that is sanitaryware automation - INR 11 crore, faucetware automation - INR 4 crore, customer touch points – INR 8 crore, and land and building in and around the current manufacturing facilities of INR 8 crore, logistics and IT – INR 4 crore. In addition to all of these, the sanitaryware greenfield plant where the land will cost around INR 25 crore, the manufacturing facility, civil work, plant and machinery will cost another INR 105 crore. So, it will be a INR 130 crore project.

Praveen Sahay: And some part of that will come in this financial year?

Ayush Bagla: The land portion.

Moderator: Our next question is from the line of Dheeresh Pathak from WhiteOak Capital.

Dheeresh Pathak: Sir, you were mentioning 780 dealer-owned, dealer-managed and then; sorry retailer-owned, retailer-managed and then 180 dealer-owned, dealer-managed, and then few Company-owned Company-operated. So, all that adds up to roughly 1,000. So, the total retail touch points would be more than this, right or there is 1,000 touchpoints?

Ayush Bagla: No. These are the large format dedicated, where you can see some huge amount of Cera branding, large LED displays, dedicated corners, shop-in-shops, that is the retailer format. In the dealer, it is in most cases exclusive. So a dealer who is making the kind of investment for a 1,000 or 1,500 square feet, in most cases, more than 95% you will find they are exclusive Cera dealers, and this is a huge working capital investment by them as well, because they have to give credits to large and medium-sized customers. They buy from Cera on cash and carry. So, for them the financial commitment, the opex is very, very high.

A normal dealer who has a 1,500 or 1,000 square feet display area, would be servicing anything between 30 to 60 retailers, which we are not even counting, because these would be hardware stores and many other types of stores that, I mean there is no way for us to keep a track, other than through this retailer loyalty program. Our financial transaction ends with the invoicing on the dealer and getting paid, which is why this whole retailer loyalty program was launched to begin with. We want to understand the pricing relationship between the retailer and the dealer, the kind of SKUs that are moving, velocity of sales, all of that. And in our model, we want to have the dealer with as close to zero inventory as possible, which is why we had these 19 distributed warehouses across the country with a large number of SKUs.

Dheeresh Pathak: Okay. So, these 184 dealer-owned, dealer-managed, so they have these showrooms, as well as they manage the retailer relationship also, like you said, each dealer will have 30 to 60 retail touchpoints. So, they do duals, right?

Ayush Bagla: That's right. And in fact, these dealers have a very large infrastructure of 3-wheelers, 4-wheelers, own warehouses, sales people, bank lines and dedicated customers. They also have the ability to bundle sanitaryware and faucetware with many other things, maybe construction, chemicals, plywood, sometimes even cement.

Dheeresh Pathak: You gave a spend on ad spends. What was spend on loyalty programs last year?

Ayush Bagla: So, the loyalty program will be, the annual cost will be below INR 18 crore. That was the retailer loyalty program. The plumber loyalty program, which has just been launched, that cost I think we'll get to know in six to nine months from now, because there are lot of tweaks that take place along the way.

Dheeresh Pathak: Okay. Retailer loyalty program has been running for how many years?

Ayush Bagla: One year. It just completed 15 months.

Dheeresh Pathak: One more question. Just to understand, you mentioned lot of SKUs and products you have in both facet and sanitaryware, but just to understand the skew. The top 10, 20 SKUs in, let's say, faucet as well as sanitaryware, they would contribute what percentage of that category's revenue?

Ayush Bagla: See, that we analyse, but we do not really give out because that would be sharing a lot of data with the peer group. And that list in any case changes very rapidly with the introduction of new products.

Dheeresh Pathak: Okay. But is it fairly fragmented or is it skewed in…

Ayush Bagla: Very fragmented. In fact, consumer demand is such, for similar looking SKUs, higher priced SKUs are moving faster.

Moderator: Our next question is from the line of Udit Gajiwala from Yes Securities.

Udit Gajiwala: Sir, firstly, could you give a split of what is our outsourced and in-house manufacturing for this quarter, for both sanitary and faucet?

Ayush Bagla: For sanitaryware, for this quarter, outsourcing constituted 59% of sales. Manufacturing at our own plant was 41% of sales. For faucetware it was 50 and 50, 50% - outsourcing and 50% own manufacturing. If you want to compare that to the whole year last year FY23, in sanitaryware outsourcing was also 59% of sales and own manufacturing, 41%. In faucetware, outsourcing was 52% of sales, own manufacturing 48%.

Udit Gajiwala: And sir secondly, when we look at the new sanitaryware plant, if we are able to complete the land acquisition in this fiscal. By when can we expect the plant to start commercial and what is the capacity size that you all have in mind for as of now?

Ayush Bagla: See, the expectation is the land formalities could be completed sometime in Q2 or Q3. And then that will set the zero date, and initial production will be 18 months from zero date. The full production will be 24 months from zero date. There is no point discussing a rated capacity of, even if I say it's a rated capacity of 12 lakh units per year, it does not mean anything because that number will change dramatically depending on the kind of SKU (inaudible).

Udit Gajiwala: Okay. But do we expect a similar 3.5 to 4 times asset turn for the said capacity?

Ayush Bagla: I'll just give you the exact number. Based on the current estimates, the new sanitaryware plant at a cost of, let's say, INR 130 crore will have asset turns of close to 2.5 times. And the faucetware plant at a cost of, at INR 69 crore the asset turns were 3.5 times. Now that we've completed at INR 58 crore, the asset times will increase further.

Udit Gajiwala: Okay. So, sir, just lastly this new sanitaryware plant, though it is in proximity to our current land, but there we will not get the gas advantage that we are getting from GAIL right?

Ayush Bagla: But there are many other options that are being looked at besides the typical natural gas. And gas, in any case, is now a very small portion of manufacturing costs. As we are upsizing our SKUs and going higher in the value chain, these individual RM costs are declining in percentage.

Moderator: Our next question is from the line of Omkar Ghugardare from Shree Investments.

Omkar Ghugardare: Yes. In the commentary you mentioned that the premium category constitutes around 45%, right?

Ayush Bagla: That's right. So, I'll give you the exact number and I'll split it up for sanitaryware and faucetware. For the Company as a whole, the premium category is 45%, mid category is 31% and entry 24%. When you split that up in sanitaryware, the number is premium 59% mid 18% and entry 23%. And faucetware is premium 25%, mid 49% and entry 26%.

Moderator: Our next question is from the line of from Aasim from DAM Capital Advisors.

Aasim Bharde: Just one question on future growth. Of the 17% to 19% expectation in the near term, rather the next 2 years, fair to say that faucetware should be the key driver for growth since sanitaryware is running at full utilization and you have been moving up the value chain in-house for a while. So sanitaryware growth would be flat line or be sub-10% in the near term?

Ayush Bagla: See, manufacturing capacity is not the best determinant of topline growth, simply because the products that are made in-house, that list changes dynamically, and products that are given to outsourced partners also change dynamically. So, availability of capacity from outsourced partners is always there for low-end products. And we provide a lot of training and QC to our outsourced partners. Depending on that, that list can be modified. So, whether the plant at one point, you know last quarter and the quarter before that was running at 115% as well. Currently, it's running at 100%, but there is enough flexibility to change the product mix within the plant. So manufacturing is not a constraint, which is why we've been sharing with each other that the optimum inventory level has to be maintained in a distributed manner. So, we have distributed our availability of products across the country, which is why this 70-plus days of inventory is the correct number. So, this is the ninth straight quarter with zero loss of sales of any SKU with full availability. So, I take your point, faucetware will grow much faster because the faucetware industry is double the size of the sanitaryware industry. And the theme of unorganized to organized has not fully played out in the faucetware business. Only half the INR 11,000 crore or INR 12,000 crore market is currently organized. So that theme is also playing out at a very rapid pace. So, the percentage growth in faucetware will be higher than sanitaryware, but it's still 33% of our business versus 52%, 53% being sanitaryware. So, it has some catching up to do. And sanitaryware will also be growing at the same time.

Aasim Bharde: But any hint of a number for sanitaryware growth, I'm sure everyone appreciates what you've done despite utilization being peak for quite a while in terms of growth. I just want to know how much more can the growth be strong enough before your new capacity actually hits in.

Ayush Bagla: So, adding that 17% to 19% growth when we said that 2 years ago, it seemed like a difficult task to most people who know the Company, but we delivered in the last 2 years. Even this year, it is possible. Adding 17% to 19% will be INR 340 crore to INR 350 crore of sales.

Aasim Bharde: Sure. Got it. And just last question, any comments on the tiles business growth, even though it's a smaller business now, how would that grow from here on?

Ayush Bagla: So, tile is now a fully outsourced business with no real assets on our books, other than maybe some receivables. We are operating almost at a zero-inventory model. It is now 10.5% of sales. This quarter the number was INR 44 crore. For FY23, the entire number was INR 190 crore. So, I mean, it's an independent business and we view it only as a complementary business to sanitaryware and faucetware as a trading business. So, it has its own P&L etcetera and so on, its own sales channels, which are sometimes different from sanitaryware and faucetware. So, there is no real emphasis to grow that business given that there is such a significant overhang of overcapacity in that industry and your prices sometimes soften.

But one more thing I just wanted to highlight about tiles. Our soluble salt tiles which was a fully commoditized business is now only 4% of sales, and GVT, which is the industry standard and also the most profitable portion of the business, has grown by 29% over last year. Then double-charge, full-body, which is also a very profitable tile segment, has grown by 41%. So, the emphasis is to go upsizing again in design, in slabs and in full-body and in GVT, rather than the soluble salt or wall tiles which are more commoditized and more pricing-driven.

Moderator: Our next question is from the line of Akash Shah from UTI Mutual Fund.

Akash Shah: I do not know whether my data is correct, but actually brass prices have corrected by about 5% on a year-on-year basis or let's say, 9% on a Q-o-Q basis. So, any thoughts, are we planning to increase discounts or let's say, how is the competition behaving?

Ayush Bagla: So, I'll just give you some colour on all raw materials. On a Y-o-Y basis, brass has gone down by 7% and Zamak, which is another key raw material ingredient in the handles of single lever faucets, has gone down by 31%, but pricing at the MRP level or at the dealer lending level has not changed. So, you will find in our history that there's never really been an instance where MRPs or dealer landings change. Sometimes when there are slow-moving items, there are combo offers with sanitaryware or with other slow-moving items and fast-moving items to liquidate the stock, that's about it. But at the same time, in sanitaryware, bulk of the raw materials have moved up. So, China clay, which is a key raw material, has moved up 18%, feldspar 3%, colour and glazed 2% and 3%, zinc which is one of the very small constituents of RM, has moved down 35%. So, in the basket of both, you will find sanitaryware and faucetware are sold together most of the time. In the basket of both, there has not been any meaningful or material change.

Akash Shah: Sure. So, we are not sort of increasing discounts? I mean, we are broadly keeping the prices?

Ayush Bagla: See, increasing discount for a brand like Cera is never really an option, because the brand is so strong, and increasing discount is a desperate attempt by newer entrants in the business. Those increased discounts may or may not reach the ultimate consumers. So here, in this Company, we would like to talk to the ultimate consumer, which is why you're also seeing many companies which operated behind the wall in the pipes or PVC pipes business, have not really been successful in sanitaryware and faucetware, because they're talking to civil contractors, civil engineers and plumbers, whereas Cera would speak to the consumers directly. It's a completely different business model.

Akash Shah: Right. And my second question is, so in faucet, now that we have commenced the brownfield capacity, I mean, do you think that we will see a significant decline in outsourcing and there will be significant increase in own manufacturing in faucetware business?

Ayush Bagla: There might be a slight decline in outsourcing, but we expect sales to pick-up in a manner that the ratio may or may not change, and it's not really anything that makes a difference to profitability. We will continue to outsource lower-end products. So, 1.25 lakh pieces of lower-end products, which were outsourced, we do not expect to make those in-house because they really do not complement our skill set and technologies.

Akash Shah: So, do you foresee enough demand that we will be able to ramp-up capacity very soon or do you see that the ramp-up of the capacity will take some time?

Ayush Bagla: To give you an example, we were producing 1.5 lakh units faucetware in our facility till September '21. Now we are at 3 lakhs. That 3 lakhs is now fully absorbed. Similarly, 3 lakhs is going to 4 lakhs. That 4 lakhs will get absorbed with no changes to that 1.25 lakh outsourcing number. And these are all that pink, gold, then black matte, which is all sought-after by the new consumer. So, these PVD SKUs, yellow gold, pink gold. The pricing is much higher than the typical chrome products, but their demand is also much higher. So, we are addressing a completely different market now.

Moderator: Our next question is from the line of Omkar Ghugardare from Shree Investments.

Omkar Ghugardare: My question was regarding the 45% premium category which you mentioned in the commentary, I just wanted to know how has been the trend for this in the last three, four years? From what percentage it has moved to 45% and what will be the trend you assume for that?

Ayush Bagla: We can of course, make a trend chart and share it with all shareholders and investors and analysts. But this number has been increasing for 2, 3 reasons. First of all, bulk of the new product introductions have been at the mid and premium end of the business, at higher price points, and with higher degree of design difficulty. Now that is one of the barriers to entry. So, for a brand like Cera, higher design, aesthetics and design difficulty provides higher realization. So that's something that is exclusive to us. If you look at our catalogue, it's on the website. You will find a lot of new designs in faucetware, sanitaryware. In sanitaryware, you'll find a lot of non-cavity-based straight-line products, whether it's floor-standing WCs or wall-hung WCs or thin-rim sinks. These are the products that are selling well at dramatically higher price points. So right from engineering, R&D and manufacturing, then educating the sales force, dealers, how to push, how to explain the benefits to the consumer is a whole new process which is why you're seeing the increase in share of premium products.

Omkar Ghugardare: Okay. Can you just quantify in terms of number for this, just a ballpark number, not exactly…

Ayush Bagla: That I'll have to make for the last few years, and then I'll have to share it with everybody, so that everyone has access to the same information.

Omkar Ghugardare: Okay. But the trend has been rising and you would see that continuing, right?

Ayush Bagla: That's right.

Omkar Ghugardare: Okay. The second question is on the pricing front. As you mentioned there was no price hike, but the competition increased the price. So, this is because you earlier had a price hike, at that time they did not hike the price or what was it like?

Ayush Bagla: I'll give you some background on our price mix. Our last price hike was in May 2022 of 3% in sanitaryware and 5% in faucetware. Before that was November '21, also a gap of about eight months, 10% in sanitaryware, 5.5% in faucetware. So, you are seeing that our price hikes are lower than inflation. At the same time, the margins are moving up, topline is moving up, because our plant efficiency is making up for any increase in inflation which includes RM inflation, wage inflation, electricity or gas costs. So, I cannot comment about other competitors and their manufacturing efficiency, but like I've been saying number of times, the fulcrum of this business is manufacturing efficiency.

Moderator: Our next question is from the line of Mohit Agrawal from IIFL Securities.

Mohit Agrawal: So, Ayush, I had two questions. So, one is on the 17% to 19% revenue growth guidance. Now what is the price growth assumption that you are taking or is it entirely due to value mix and volume growth?

Ayush Bagla: Last year it was entirely mix change, because the last price hike was negligible of 3% in sanitaryware in May 2022. This year, we have gone through almost 15 months with no change in price. So, I mean, I would not like to speculate about the future and the pricing decisions that are taken by the sales and marketing team going forward, but it's best to assume that this 17% to 19% will be half mix and volume and half inflation led.

Mohit Agrawal: And you mentioned in one of the previous questions, answer to a previous question that the new entrants have not been so successful because of their focus on B2B. So, is it fair to conclude that the competitive intensity has not at all changed on ground, especially considering that you have 35% demand coming from project business also or is it limited to some specific segments or SKUs? So, could you give some colour on that?

Ayush Bagla: See, the competitive intensity between the 4, 5 large players has been very high across the last, let's say, 15, 20 years, that has not changed. But newer entrants who may have been successful in other businesses, they have found this industry very difficult, because the consumer who is installing a product worth 10,000 or 15,000 and the consumer is going to use it for the next 10 years, does not want to experiment with brands. That is why there is a huge element of repeat businesses in sanitaryware and faucetware. And at the same time, if any Company comes from a B2B orientation, they cannot succeed in this business. So, in that respect, it is not really a buildings material business, more a FMCG business where you're speaking directly to the consumer and explaining the design and other differentiation of your product. That is the only thing that will sell.

Second thing is warranties. You see, in faucetware why did Cera suddenly become in less than 10 years, the second-largest player. Because we started offering a 15-year warranty. No one else was able to pierce a 10-year warranty for a faucet. This is a 15-year full replacement warranty for the main forged brass piece in the faucet. And finally, newer companies that come in, they outsource their after-sales service to third-party contractors.

Cera has more than 400 technicians on its own rolls, which visit customers in any part of the country within 24 to 48 hours of receiving a call. That is again a huge differentiator, because our technicians are, their KRAs are totally linked to customer satisfaction, whereas a third-party contractor is more inclined to try and sell some spares or charge for the visit, thereby leaving behind a more disgruntled customer.

Moderator: Our next question is from the line of Anil from SMIFS Ltd.

Anil Chaurasia: I have just one question. In FY23 annual report, I saw a bad debt of INR 5.5 crore. Can you please tell us, I mean, what was it on account of?

Ayush Bagla: This is in the normal course of business; we just take a hit of any kind of receivables beyond a certain date. So, any receivables where the dealer has not been cooperating or the field staff gives us feedback that there's not going to be repeat business and whatever outstanding that remains should be written-off, we take a write-off. And even our auditors have defined certain parameters. So based on that, and you saw the numbers last year, on INR 1,800 crore, a INR 5 crore write-off on receivables happening is very negligible number, first. Second, we have the lowest receivable days in the industry and the highest percentage of cash and carry sales.

Anil Chaurasia: It was not there year before. That's why I was wondering. So, this must be something to do with project business, right, because the retail anyway will be cash and carry, right?

Ayush Bagla: The retail delinquencies are on the dealers; they are not really related to the Company. Only dealer delinquencies are on the Company. And for the portion that is not cash and carry. But individual accounts would be INR 1 lakh, INR 2 lakh, INR 3 lakh. So, within the INR 5 crore if you see the composition, no single number would be more than a couple of lakhs.

Anil Chaurasia: And secondly, you retain your target, right, INR 2,900 crore by September '25?

Ayush Bagla: That's right.

Moderator: Our next question is from the line of Lalit Kumar from LKR Advisors.

Lalit Kumar: Ayush, what is the faucetware market share which we have currently?

Ayush Bagla: Again, giving a number is very speculative because there is no third-party authenticated report, but we are the second largest player after the market leader, and our market share is in double digits and our share of incremental market share is 1.5 times our current market share, because we are capturing a significant portion of the growth of the faucet market. So just for illustration purposes, if our market share is 10%, 11%, our incremental market share would be 16%, 17%.

Lalit Kumar: Got it. And what's the cash balance and inventory days you had mentioned, currently?

Ayush Bagla: Your voice was a little muffled.

Lalit Kumar: What's the cash balance and inventory days you had mentioned?

Ayush Bagla: Right, I'll give you that numbers. Inventory days are 74 days, and the cash balance increased from INR 566 crore to INR 755 crore.

Lalit Kumar: Okay. So, what is the plan. Do we have a much better utilization plan for reduction of our working capital days from 72 to 60, given that you are at 100% capacity both in sanitaryware and faucet?

Ayush Bagla: The 12-day increase that you're seeing in working capital days is primarily because of the 9-day decrease in payable days. So payable days, many companies have 70 days and 75 days as payable days. Cera has traditionally have a very low payable days because we keep it aligned to our receivable days, which is now between 26 and 27.

Lalit Kumar: Got it. And on the capex, how much is the internal accruals and how much is going to be the debt?

Ayush Bagla: There will be zero debt taken, and, in fact, even this cash balance, all best attempts will be not to touch the cash balance, but to finance all capex from that quarter operating cash flow. So, this quarter we had INR 58 crore of operating cash flow. I mean this year we'll definitely have close to INR 250 crore of operating cash flow, which is much more than the capex on any financial year.

Lalit Kumar: And the last question, you had mentioned for this capex the asset turn has been 2.5 times. So, I think you're giving a conservative project number, given that we are already on a blended asset turn of 3.4, 3.5 times?

Ayush Bagla: No. I will give you the exact number. For financial year '22-'23, asset turns were 6 times.

Lalit Kumar: No, for the capex.

Ayush Bagla: Yes. For capex for the faucetware project, at INR 69 crore, the asset turns were 3.5. So, at INR 58 crore, that number will be 4 or higher than that. So sanitaryware, we are only estimating that based on INR 128 crore asset turns are 2.34 times, but that number will dramatically change once we get the final product mix and selling price, which is, no point to finalizing a product mix for a plant that is more than 18 months away.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Ayush Bagla: Thank you very much. I would like to thank everyone for attending this call and for showing interest in Cera Sanitaryware Limited. Cera remains positive that its strong positioning in the industry, improving macros will help it deliver steady and consistent growth going forward. Should you feel any further clarification or would like to know more about the Company, please feel free to reach out to me or CDR India. Thank you once again for taking time to join the call and see you all next quarter. Thank you very much.

Moderator: Thank you. On behalf of Cera Sanitaryware Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.
