



Cera Sanitaryware Limited

Q2 FY24 Earnings Conference Call Transcript

November 02, 2023

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY24 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 touch tone 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, Sagar. Good morning everyone and thank you for joining us on the earnings call of CERA Sanitaryware Limited for the Q2 FY24 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 shall open the call for Q&A. A quick disclaimer before we begin. Some of the statements made in today's 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 will now turn the call over to Mr. Ayush Bagla for his opening remarks.

Ayush Bagla: Good morning, everyone. The earnings for the quarter ended September 30, 2023 were adopted by the Board of Directors yesterday, 1st November, 2023. The earnings documents have been released to the stock exchanges.

Some of the objectives the Company has made significant progress in for this financial year are - Number 1, enabling CERA to be further entrenched across consumer demand trends with varied product offerings. Number 2, gaining market share and making deeper inroads into the B2C consumer consciousness. Number 3, capitalizing on manufacturing efficiencies to realize product differentiation while delivering value to consumers. And number 4, upgrade and refresh consumer perception of the brand.

I am pleased to share that we continue to make substantial progress on these objectives. During the quarter, we witnessed steady demand for our products as the overall replacement and project demand remained positive. CERA's product and design emphasis allows it to focus on the B2C segment where it can truly monetize its brand promise.

Over the last few years, all efforts have gone through to decouple CERA's revenue growth from fluctuations in interest rates and housing demand, thereby insulating it from real estate demand cyclicality. Despite the challenging backdrop characterized by persistent inflation and inclement climatic conditions across the country, as well as the high base of revenues and other financial parameters from last year, we reported double-digit growth in revenues.

Q2 FY24 revenues were higher by 11.43% on a year-on-year basis. In view of our strategic objectives to gain market share, deepen the B2C presence and deliver value to consumers, no price hikes have been undertaken since May 2022, a period of nearly 17 months, the leader guards the price. In view of adequate inventory levels in Sanitaryware, where we slightly reduced the pace of manufacturing this quarter. During the quarter, the Sanitaryware plant capacity utilization was at 91%.

The Faucetware facility expansion program could take capacity from 3 lakh pieces to 4 lakh pieces per month was commissioned on 25th September 2023. In Faucetware, the capacity utilization was at 122% during Q2 FY24 after considering added capacity of the brownfield expansion. With this expansion, which was completed within time and below cost, the Faucetware needs of the Company are secured for the next few years. The product mix plan 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.

The gross margin decreased from 55.78% in Q2 FY23 to 52.72% in Q2 FY24. Historically, the gross margin has been between 48% and 52%, and the 55% last year was an outlier. EBITDA was higher by 13%, as it increased from INR 77 crore to INR 87 crore. EBITDA margins increased from 18.11% in Q2 FY23 to 18.39% in Q2 FY24.

Our stated objective was to increase annual EBITDA margins by 50 to 75 basis points each year. We have surpassed our stated objective as the increase in EBITDA margin 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.

In Q2 FY23, China imports were INR 18 crore or 4.3% of sales. In Q2 FY24, China imports were INR 11 crore or 2.4% 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 and plant efficiency and new product-led growth. With regard to capacity expansion from manufacturing Sanitaryware, a fully aggregated land parcel in Gujarat, which has been historically owned by a single owner, has been in due diligence. We expect title documents for a substantial part of the land parcel to be executed over the next one to two months.

During Q2 FY24, no price hikes were undertaken. During 2021 and 2022, three rounds of price hikes were undertaken by CERA, which were all a demonstration of pricing power. As a strategy, the Company focuses on multiple levers to drive profitability and does not rely solely on price hikes. At the same time, future price hike is a continuous evaluation.

In Sanitaryware, raw materials like China clay went up by 18% and feldspar by 4%, while plaster of paris and glaze went up by 1% and 3% in Q2 FY24 as compared to Q2 FY23.

Operating efficiency at the manufacturing level has gone up, as have the overall yields, which have negated a substantial portion of input cost increases. Zinc went down by 28%. In Faucetware, brass prices went up by 2% and Zamak prices went down by 24% as compared to Q2 FY24. Due to the availability of gas from isolated well near our plant, the price of gas from GAIL continues to remain below market and will remain so in the future. Average gas prices have gone up to INR 29 per cubic meter versus INR 26 per cubic meter in Q2 FY23. Normally, GAIL supplies 50% of CERA gas needs. However, in Q2 FY24, GAIL provided 70% of the gas requirements of the Sanitaryware business, Sabarmati gas. So, pricing went down from INR 75 per cubic meter in Q2 FY23 to INR 45 per cubic meter in Q2 FY24, supplying 30% of the gas needs of the plant for Q2. The Q2 FY24 weighted average cost of gas was INR 33, much lower than industry. Gas costs constitute 1.51% of CERA's topline.

Our focus on ESG began in 1995 with the installation of a wind energy facility. Capacity was gradually added and a solar plant was also installed in 2014. During Q2 FY24, 94% of the energy needs of the two manufacturing facilities were met through in-house renewable energy sources.

The retailer loyalty program that was launched by CERA in Q2 FY23, which has now completed 15 months, more than 16,500 retailers have uploaded to 2.22 lakhs invoices on the retailer loyalty app. The feedback received from retailers has helped us in understanding the consumers' changing demand geographical segmentation of SKUs and evolution of the rewards program to retailers. Besides standardizing invoices in Q2 FY24, of the total retail sales of INR 251 crore, more than INR 96 crore of sales were eligible to receive the rewards through this program. These are 38% of retail sales.

After the success of the retailer 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.

New product introduction is one of the most important growth levers for CERA. During FY22, 72 new products were launched. The average number of products launched historically used to be 100 annually. During FY23, 699 new products were

launched. With the sharp pickup in new designs and product launches in the last two years, a considerable amount of resources have been deployed at the manufacturing level and at the level of customer experience. During Q2 FY24, substantial efforts have been made to ensure the product launches in the last 24 months penetrate deeper, do the dealer network and in consumer buying decisions. It is very similar to the route adopted by most FMCG companies.

Our highest-ever advertising spend in FY23 of INR 57 crore at 3% of sales. The budgeted publicity spend for FY24 is expected to be at INR 65 crore at similar percentage of sales. Cera's share of voice was lower than its share of market. And now with the increase in advertising expense, the share of voice is getting closer to its share of the market. Publicity spends, which were INR 4 crore in Q2 FY23, were INR 15 crore in Q2 FY24, an increase of 375%.

Population centers of 17 lakhs and above, which are Tier 1 city, constitute 33% of sales. Population centers of 3 lakhs to 17 lakhs Tier 2 cities came up with 22% of sales and centers with population centers below 3 lakhs, which are Tier 3 cities were at 45% of sales.

We can now go over the financials. Revenue from operations in Q2 FY24 were INR 462 crore versus INR 414 crore in Q2 FY23, an increase of 11%. EBITDA excluding other income was INR 74 crore in Q2 FY24, vs. INR 66 crore in Q2 FY23, an increase of 12%. The gross margin came in at 52.72% in Q2 FY24 against 55.78% in Q2 FY23. Profit after tax was INR 57 crore in Q2 FY24 versus INR 51 crore in Q2 FY23, an increase of 12% Y-o-Y. EPS for Q2 FY24 was INR 43.74 versus INR 38.99 in Q1 FY23. For Q2 FY24, 51% of the topline was from Sanitaryware, 36% on Faucetware, and tiles represented 11% and Wellness 2%. On a Y-o-Y basis, Sanitaryware revenues registered an increase of 4%. Faucetware revenues increased by 16%. Tiles increased by 34%, and well increased by 14%. The Sanitaryware and Faucetware verticals remain the bedrock of the business with contribution of 87% to CERA's overall revenues.

The classification of overall sales in Q2 FY24 was 43% in the premium category, 32% in the mid-category and 25% in the entry category. Inventory days in Q2 FY24 was 72 days compared to 81 days in Q2 FY23. Receivable days in Q2 FY24 were 29 days versus 26 days in Q2 FY23. Payable days in Q2 FY24 was 41 days against 36 days in Q2 FY23. Therefore, net working capital days in Q2 FY24 was 60 days versus 71 days in Q2 FY23.

In this quarter, the availability of product ensured there was no element of lost sales. This is the tenth 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 capacity expansion program is at INR 35 crore, of which INR 7 crore was spent in Q2 FY24.

As on September 30, 2023, our cash and cash equivalents stood at INR 751 crore against INR 573 crore as on September 30, 2022, an increase of INR 179 crore or a

33% increase. Positive cash flow for Q2 FY24 has been INR 57 crore, as compared to Q2 FY23, which was INR 50 crore.

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

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

Moderator: Thank you so much. The first question is from the line of Sangameswar Iyer from Consilium Investments. Please go ahead.

Sangameswar Iyer: So what I was trying to understand is the demand scenario currently for both for Faucetware and Sanitaryware. Given the macroeconomic situation where inflation has gone up, your discretionary spend and consumer sentiment has gone down. So can you help us understand, how do you see the demand scenario over the next 12 months?

Ayush Bagla: So thank you for the question, and it's a very important point that you have raised. Most important, the Company and the sector has gotten used to the tailwinds of the last 24 months. And at CERA, we knew that the tailwinds and market being so buoyant are not a constant feature. So, from our end, there were certain building blocks that were put into place. First of all, we make sure that we remain the B2C focused Company. So, demand does not fluctuate so much in the B2C end and at the same time, pricing power can truly be exhibited at the B2C end. So, the focus was not project orders, which were generally all available, continue to be very, very strong. We limit that to about 1/3 of our P&L annually. That's the first thing. Second, new product introductions and new designs. So new product introductions on features, functionality and aesthetics. Those were the things that dealers were given a lot of training on, which they could explain to retailers and retailers to the end consumer. So, the discussion was not only pricing, pricing, pricing. As far as demand is concerned, we don't see any headwinds. We see consumers who have been hit by inflation, maybe postponing their decision. But again, the markets have come back again in October. The trends of October are very encouraging. There's been a dramatic increase in topline again in October. So, I think, this is just a question of seasonality. And though we have exhibited an 11%, 12% increase in topline, it's from a very high base. So, this year's Q2 has been the best Q2 ever. Last year's Q2 was also the best Q2 up till that point in time. So, we are dealing with a very high base there. But the numbers on an absolute basis of INR 474 crore are an excellent number to have with every engine of the Company firing - manufacturing, Sanitaryware, Faucetware. And then tiles, you know there's been a dramatic shift in the tiles. Though the tiles industry has reduced some pricing power due to overcapacity, CERA's tiles have exhibited the reverse trend, and I'll give you some more data to give you know add more colour to that. 41% of our tiles sales are on

GVT. GVT is the highest end of tiles. Only 3% of CERA's sales are soluble salt, which is the commoditized tiles. Then double charge tiles, which are the most expensive, long slabs with the full body, sometimes half body, again, expensive tiles are 15% of sales and wall tiles are 25% of sales. So, the more expensive tile categories for CERA are increasing. But at the same time, we want to limit that business to 10%, 12% of our topline. Otherwise, the easiest way to buy growth were three engines to buy growth - increased project exposure, increased tiles sales, which is easy for us to do because we don't have manufacturing capacity. We are a buyer and seller of tiles. It's very easy for us to do that. And three, increase credit to consumers. So, we have not been tempted by any of the three engines for growth.

Sangameswar Iyer: Right. As a follow-up, given that we have expanded the capacity for Faucetware, can you again and in your commentary, you mentioned that now will be expanding capacity to take care of growth for the next two years, three years. Can you just give a flavour in terms of what kind of growth are you embedding here for the initial take say, for the next two years to three years?

Ayush Bagla: See growth is available when the company was at 1,250 even there, there was a question of growth, and we hit 1,440 then 1,800. So, till we reach 2,900, growth will always be a challenge and it will not be linear. So, markets are not linear, and companies grow, then topline increases is also not linear. So yes, capacity is now available both on Sanitaryware and Faucetware. In Faucetware, the expansion program is complete, and the plant can be expanded further as and when required at minimal cost. So, I would say, for the next three years to six years, Faucetware capacity is done and dusted. At the same time, for low-end Faucetware, our outsource partners are very active and there is no dearth of Faucetware capacity in the vendor ecosystem.

As far as Sanitaryware is concerned, we were operating at 115% capacity utilization. But once we take certain adequate inventory level, we decided to tone it down to 91% this quarter. So even in Sanitaryware, though the new plant is still in the works, there is adequate capacity available currently. And Sanitaryware, you know the vendor ecosystem is not as well developed as the type of Faucetware vendor ecosystem. At the same time, we are taking in a lot of products in-house. We are moving the consumer to higher aesthetics, higher price points, changing the product mix. That is the aim. So capacity was never a constraint except during the brief period of COVID, let's say, 2020 and some part of 2021. Other than that, this is a 10th straight quarter of no capacity constraint.

Sangameswar Iyer: Got it. And final question before I jump back to the queue. In the 11% revenue growth, given the premiumization has moved up to 41% overall in your revenue, how much has ASP blended in this improvement and how much is your volume growth?

Ayush Bagla: See now volume growth is a secondary objective, distant secondary objective versus product mix improvement. So now you'll ask me the next follow-up question

on how we were able to do that. We held prices for 17 months. We absorbed all the raw material price increases; the labour cost increases and overall inflation in the Company just by improving the product mix. So, ASP normally, because it's sensitive data that can impact our competitiveness in the marketplace that is not disclosed to the market. But ASP continues to go up every year. The range of products that will also change and volume is not at all an objective currently.

Sangameswar Iyer: Okay. Thank you. I will come back in the queue.

Moderator: Thank you so much. The next question is from the line of Onkar Ghugardare from Shree Investments. Please go ahead.

Onkar Ghugardare: Good morning. My question was regarding just now you mentioned that, till the time you hit INR 2,900 crore, the growth will be not linear. I know at INR 2,900 crore, INR 3,000 crore, you will be hitting a certain size. But apart from that, what would be the change that you are stating that, till that time the growth will be non-linear and after that, it would be linear?

Ayush Bagla: So, the best way to look at it is, when it went up from 1,220 to 1,440, we hit about 19% to 20% growth, which was an outlier that time. Then from 1,440 to 1,780, that was also a 25% growth, which is also an outlier. And this year, on a higher base, if the percentage is, whatever, 16%, 17%, in absolute terms, it will be a great number to have. Because to reach 2,880 by September '25, we have to do something around 2,500 by March '25, which is easily on track. But that journey will not be linear.

Onkar Ghugardare: Okay. But after hitting a certain size, you will be gaining certain advantages, right? So can you articulate some of them? What can exactly change operating a certain price?

Ayush Bagla: Yes. So first, let me start with Sanitaryware. We are the number one player in Sanitaryware. We have pricing power. All other companies resort to price increases to up their revenues. We have not done that. We are the only Company which has held our price for 17 months, forcing other companies also to relook at their pricing decision for the last 17 months. So, the market leader can do that, the second largest player cannot do that. And of course, those further down the chain have to increase their discounts, do other things and down-trade sometimes also because their pricing is now out of tune with the market. So that's our way of consolidating and staying ahead is Sanitaryware.

In Faucetware, we are the second largest player. But our incremental capacity is 1.5x our current capacity. So, we are capturing a larger share of the growth in the market. And Faucetware is, where the opportunity lies simply because the unorganized market is equal to the size of the organized market. And the overall Faucetware market industry size is double the Sanitaryware market.

So those are the two things in place. Again, if you look at our catalogue, which is there on the website, and physical catalogues are available with the Company, you

will see Black Matt, PVD, the kind of product introductions that have taken place, the quality parameters, you can compare them with any of the Western European or American brands, even in their geographies, and we are selling at a fraction of their price.

So, the headroom to take price up and for the brand to grow, keep changing its perception and move upwards in the consumer psyche is tremendous. You will see our latest advertising reach. The positioning of the brand is completely different from what it was earlier. It is an aspirational aesthetic brand appealing to a younger audience. So those are the building blocks that we have put in place.

Onkar Ghugardare: Okay. Thank you. On a second question is on the Faucetware sales. You mentioned that around 36%. So that is INR 170 crore approximate sales have come from Faucetware. So, after the capacity expansion, what kind of incremental sales are you looking at from that at 100% capacity?

Ayush Bagla: First of all, unlike a typical fertilizer or cement business, where capacity expansion is directly linked to topline, there was no capacity constraints in Faucetware or Sanitaryware for the last 10 quarters. So, there was enough outsourcing capacity available. There was flexibility in the in-house infrastructure to keep on changing the mix of SKUs being made at the shop floor. So topline growth will be a large function of new product introductions and retailer, dealer and finally, the consumer accepting these new products, new design at higher price points.

So let me give you some numbers. Last year, Faucetware was INR 611 crore, which grew at 28%. This quarter, Faucetware was INR 164 crore, which grew at 16%. So even if you take 16% or 20% of INR 611 crore, it will be closer to INR 750 crore for the year-end.

And the industry is growing at single digit, and we are growing at 20%. So that is exactly the phenomenon that's most important, who is capturing a higher share of the incremental growth in the market? Are we taking from the only player larger than us? Are we taking from those players behind us? That's the most important aspects of this business rather than only capacity because capacity is one of the ways to gain an advantage on cost and design and of course, quality. Then of course, your, the sales and marketing team takes over, the brand perception takes over.

Moderator: Thank you so much. The next question is from the line of Sanjaya Satapathy from Ampersand Capital. Please go ahead.

Sanjaya Satapathy: Yes. Sir, thanks a lot for the opportunity. So, you mentioned that October has been much better. But at the same time, you keep referring to the high base restraining your growth capability. So, net-net, what are we saying that is it like a 15% to 17% annual basis is your sustainable growth and that is something which will pan out in second half as well?

Ayush Bagla:

I would say that the best way to look at it is a medium-term growth target of between 19% to 21%. Now some year will be an outlier, like last year was 25%. This year might be 18%. So, within that band of 19% to 25% is where we would ideally like to be, and some years will be outlier. But at the same time, the driver of that growth will be new products and how the consumer accepts new designs. It will not be manufactured in capacity alone. Yet lack of capacity can hurt growth, but having capacity doesn't mean that whatever you produce will be sold.

Sanjaya Satapathy:

Understood. And sir, my last question is that we are hearing about many new players coming in, including Astral and others. And you also are trying to get into, let's say, tiles and some of the other things. So net-net, in medium terms, how do you perceive competition and where, what are new categories that you can really get into?

Ayush Bagla:

See, normally, on a call like this, we don't talk about other companies. But I mean, you have studied this sector more than me. You will know how the new players, pipes players and other tile companies have been struggling in Sanitaryware and Faucetware. The numbers that they have shared with the markets, they are very disappointing numbers. In fact, if you see our transcript from four quarters, five quarters ago, I said that new players coming into the industry will be good for the industry. But that has not prudent so because these new players in the race to bulk up only approach project players and offer huge discounts. So that ruins their brand. In this kind of short-term thinking, the industry has not benefited, the consumer has not benefited and let these companies show their seriousness by putting up a plant first because that is the first question that any consumer asks us, where is your plant?

As far as CERA is concerned, we have no plans to get into any unrelated diversification, even related diversification, if you want to call 'tiles' that, it is a fully outsourced trading business where we operate on zero inventory days, zero inventory on our books and zero inventory kept in our warehouses.

So, our vendors dispatch directly to the market, and the market sells, and we don't conform to the typical credit guidelines of the tiles industry. So, we have tried to keep our receivable days dramatically lower than the norms in the tiles industry. We don't sell soluble salt more than 3% of our overall 'tiles' revenue. Then 'wall tiles', which also is more of a bulk item rather than a very specialty, very profitable item, is limited. Our focus is large slabs, GVT and double charge full bodies. So, we are in a very niche segment in tile. We don't want to be a very large tiles player. We want to be a very profitable tiles player whereby, we limit our topline in tile by remaining in a small part of the tiles industry. Other than that, Sanitaryware and Faucetware are our only businesses.

Sanjaya Satapathy:

Understood. Thanks a lot, sir.

Moderator:

Thank you so much. The next question is from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

Mithun Aswath: Yes. My question was you mentioned that your designs and products on the Faucetware are world-class now. I just wanted to understand and you mentioned that you sell it for a fraction of the price. Is there a potential outsourcing opportunity that you see there using the know-how of CERA and exporting this in a large way? Is that an opportunity that you, see?

Ayush Bagla: Yes, there is a huge opportunity, and we do have our export business. We sell to almost 40 countries. But what we have not done is put up retail touch points in those geographies with our own warehouse on our own books and kept inventory in those markets, nor have we promoted the CERA brand in those markets. The way we have currently been selling is, we have appointed agents and dealers in those markets who open letters of credits on CERA. Once we get fully paid, only then we export. So that's a very conservative way of exporting. But that's how we have started the business. As it bulks up, yes, there will be a need to keep inventory in those markets, keep our own sales staff and then, of course, promote the brand aggressively in those markets. Yes, so the opportunity is very huge. There is a significant cost advantage that we will continue to have in those markets. Now the aim is to see how the brand does over time. But as far as outsourcing is concerned on a white label basis, we have tried it a few times for one very, very high-end niche brand in North America. But that is not really our business. So that is, from an R&D experiment, it proved to be very interesting because we learned that we could make SKUs which sell for a few thousand dollars. But at the same time, it didn't, it wasn't our business to manufacture for someone else.

Mithun Aswath: Right. I'm just trying to understand, obviously, you mentioned the unorganized market for faucets is large, you know headroom for growth in India itself is very big. But do you have some aspiration to go beyond India as well once you cross that INR 3,000 crore revenue size and beyond? Is there some sort of target of a percentage of revenues coming from exports?

Ayush Bagla: See, currently, that number is between 1% and 2% of sales, and this will continue to increase even before we hit INR 3,000 crore in revenues. So yes, there is a plan. There is an opportunity waiting both in Faucetware and in Sanitaryware. So, it is now up to us how we take that forward. I'm sure, over the next two years, you will hear a lot of new announcements of new geographies being entered and this 1% to 2% number also going up. But we are not waiting for any milestone of INR 3,000 crore to happen before we take up this opportunity.

Mithun Aswath: And the last question, your Sanitaryware plant, when it will be operational?

Ayush Bagla: See, the plant, the land acquisition will happen sometime in November and then the approval. So, I would say that ground-breaking can happen any time after March '24. So post ground-breaking about 18 months. But I mean, though we can talk about it, and I'm happy to answer any question about the Sanitaryware plant, that is not moving the needle. So, as you heard, we reduced our capacity utilization

from 115% to 91%. So, there is adequate capacity available even in the current plant. So, capacity constraint is not there in the foreseeable future.

Mithun Aswath: Understood. But what is the reason then that you are looking for setting up this plant? This is going to be, to take you to much higher levels in terms of revenue?

Ayush Bagla: See, this plant is looking at the next five years, 10 years, 15 years. It's a matter of time where the industry size in Sanitaryware changes dramatically. So, the industry size currently is too small. It will change dramatically as the consumers start adopting a shorter life span for their products.

Mithun Aswath: Thank you and all the best, sir.

Ayush Bagla: Thank you.

Moderator: Thank you. The next question is from the line of Akash Shah from UTI Mutual Funds. Please go ahead.

Akash Shah: Yes. Hi, Ayush, sir. Thank you for the opportunity. I just wanted to ask, what is the sustainable growth rate that the Company can deliver in Sanitaryware segment? The reason behind asking you this question is actually, we have seen about 6% growth in Sanitaryware segment, and it contributes to around 52% of the topline. So, what is the growth rate that we can deliver in Sanitaryware segment?

Ayush Bagla: So, Akash, you know this Company better than anyone else and you also know this industry better than anyone else. The Sanitaryware industry historically has been growing at 6% to 9%. And CERA has been growing at 2x, 2.5x that number. You'll have to look at the Company over a period of time over a number of quarters. And in isolation, one quarter growth number won't give you the correct picture or the complete picture. So Sanitaryware will continue to grow for us anything between 12% to 17%. And this quarter, it grew by 4.5%. Last year, it grew by 27%. So, if you equate this growth over any kind of period of 18 months, 24 months, that will give you a more informed picture. But yes, 12% to 15%, 17% is definitely possible. And we've achieved more than that over the last 36 months consistently, and we'll achieve it in the balance two quarters of this year. October numbers are very, very promising. And Q3, Q4 is historically the best two quarters for us every year. So, you will see us achieve the same numbers on a 12-month basis.

Akash Shah: Sure, sir. Just two follow-ups. Sir, if you can share, what is the growth rate in October month versus last year October month? And second is, you said 27% growth in Sanitaryware segment. I could not pick that. What was it that you were referring to?

Ayush Bagla: Last year's growth numbers. So, FY23 over FY22 was a growth of 27%.

Akash Shah: In Sanitaryware segment?

Ayush Bagla: That's right.

- Akash Shah:** Okay. Understood. Sir, but that also included some element of price hikes primarily because...
- Ayush Bagla:** Yes. Which is a normal phenomenon every year for the last 40 years. How else will you look at revenues?
- Akash Shah:** Right. Okay. Sure. Understood. And sorry if you can share October month's growth rate?
- Ayush Bagla:** See, that is not possible. Akash, you know better than me, that is not possible.
- Akash Shah:** Sure. No problem, sir. Thank you so much, sir.
- Ayush Bagla:** Thank you.
- Moderator:** Thank you. The next question is from the line of Hrishikesh Bhagat from Kotak Mutual Funds. Please go ahead.
- Hrishikesh Bhagat:** Hi, good morning. Thank you for the opportunity. My first question is in the starting comments, you did spoke about the gross margin band. If you can repeat that, that will be helpful?
- Ayush Bagla:** See, I'll give you the gross margin numbers for the last many years.
- Hrishikesh Bhagat:** You spoke about the band, it will about 48% to 52% or 48% to 55%, and I wanted that.
- Ayush Bagla:** I have the gross margin numbers for every quarter from 2020 to now. In 2020, the gross margin was between 42% to 49%. So, FY21, between the four quarters, the variation was from 42% to 49%. FY22, it was between 51% and 56%. FY23, it was between 53% and 56%. And FY24, the lowest is 53%, the highest is 55%.
- Hrishikesh Bhagat:** So is this also a function of how your Sanitaryware and Faucetware mix change or incremental sales basis, I'm asking. Just wanted colour on that?
- Ayush Bagla:** And with no price increases, so this is a unique year of Q1 in Q2 of this year is a unique year. Normally, every March and every October, there is a compulsory price increase. So, this is a unique year, where we've said that we will not increase prices. We'll gain market share. We'll establish our dominance in Sanitaryware. We got a lot of extra room in Faucetware. And at the same time, just by operational efficiencies in shop floor yield increases, we will try and keep our gross margin as close to the previous year as possible.
- Hrishikesh Bhagat:** Ayush, the other question is fairly on the shorter time frame now. I do understand to the initial participant, you spoke about the medium-term guidance of moving between and growing, aspiring to grow between 18% to 25% or 19% to 25%. Now also in the start comments, you did mention that first half had the impact of high base, which I do appreciate that. But effectively, when I look at the second half of

this fiscal, rather second half of FY23, we are looking at fairly much higher base effectively from the growth perspective. Then effectively, do you feel that the growth should moderate at least for FY24 and before we start kicking in the aspired growth from FY25 onwards?

Ayush Bagla: No. In fact, the growth is accelerating. So, because of the high base effect, the percentage might be decreasing.

Hrishikesh Bhagat: I am talking about percentage only. Okay, absolute, yes.

Ayush Bagla: On an absolute number basis, the growth is very health.

Hrishikesh Bhagat: Yes. I meant up on percentage, what I meant to discuss...

Ayush Bagla: Percentage again, our requirement is a linear growth of 19% to get to our stated objective. Last year, we got 27%. This year, even if we get close to 17%, we are fine.

Moderator: Thank you so much. The next question is from the line of Namita Dige, who's an individual investor. Please go ahead.

Namita Dige: I wanted to understand in the value chain, what is the kind of margins that dealers and retailers make from CERA products? And the second question is that there is a Perito, which is that Top 500 dealers contribute to 80% of the revenue. So, when you look at this statement, how do you think about it? Is there any plan to make the sales more granular in terms of larger base of dealers accounting for growth in revenue? Thanks.

Ayush Bagla: So Top 100 dealers are 42% of sales.

Namita Dige: Right. And 500?

Rahul Agarwal: 77% of sales.

Namita Dige: Right. 500-plus dealers.

Ayush Bagla: So that is very, these are the dealers who have made maximum investments in the brand. They have spent crores in working capital. They have spent crores in receivable financing. They spent crores in putting up a very large infrastructure, of showrooms, three-wheelers, four-wheelers, salespeople, developing clients. So, they read the benefits accordingly.

Namita Dige: Okay. I mean so then, I mean then as a Company, I wouldn't invest in being more dealers, right? I would just like to make the 500 bigger and stronger to increase my growth?

Ayush Bagla: That's right. But with one addition. Suppose a large cement dealer approaches us or a large plywood dealer approaches us, that I have this ready infrastructure of 30 salesmen, 10 three-wheelers, 5 four-wheelers and 11 showrooms, what I can do

with you? Then we will present to them a fantastic opportunity of leveraging all that infrastructure into a new business of Sanitaryware and Faucetware. Because he doesn't have to be taught that business. He knows exactly what it takes. So, the new dealer acquisition of substantial size will be from adjacencies, and adjacencies could be as far away as cement and plywood.

Namita Dige: Just my first question is not answered, which is margin for retailer and dealer?

Ayush Bagla: I'll give you that. So typically, the MRP is, let's say, INR 100, and the Company transacts with a dealer above INR 70. And the dealer, in most cases, transacts with the retailer above INR 77, INR 78. Then the retailer keeps some margins for himself and shares some margin with the consumer.

Namita Dige: Okay. Okay. So 70, 77 and then MRP is INR 100. Okay, got it. Thank you.

Ayush Bagla: Yes.

Moderator: Thank you so much. The next question is from the line of Lokesh Maru from Nippon India Mutual Fund. Please go ahead.

Lokesh Maru: Sir, just one question on, we have been able to contain our fixed expenses, like the operating expenses and the employee costs. So just wanted to understand what goes into (inaudible 0:52:37) 5%-odd. So many operating cycle or number of employees have changed? Or how does it work? How have we been able to manage this?

Ayush Bagla: So Lokesh, some of the voice was muffled. But what I understood was you're asking about R&D expense and how it gives us an edge in the marketplace. So, I'll give you some color on that. R&D expense, we have R&D department with senior personnel. It is recognized by the Government of India as a center of excellence. Now we have more than 20 people, and this R&D center is fully funded. They come up with new design. Their new innovation as far as flushing systems in Sanitaryware is concerned, rimless design and the outside straight-line aesthetics that are preferred by most consumers in Sanitaryware currently. That provides us a huge edge in design and aesthetic in the marketplace. So, R&D, yes, though you might say that nothing dramatic has changed in Sanitaryware manufacturing in the last many years. But yes, as far as prototyping is concerned, 3D printing, CAD/CAM designs, all those things have been implemented in the Company for many years.

As far as Faucetware is concerned, because you're dealing with a more robust raw material like a metal, there is machining and CNC work, and robotics have completely taken over the entire manufacturing process. So yes, R&D spends, and automation have dramatically helped quality upgradation for the products.

Lokesh Maru: So, on employee expenses and fixed costs, we have been able to manage and contain this cost very well for the first half and for the quarter. Like for example, our employee expenses have gone up by just 5%, right? So, wanted to understand

how were we able to put a check on expenses, which usually would arise on the order of 10% and 20%, right? So, any colour on that?

Ayush Bagla: Yes, please. And the shop floor level yields have gone up dramatically, which more than negate, which dramatically, in fact, beat the inflation of wages. So, wages is a very large component of employee expenses. And the fixed portion is one component. The variable component is, of course, linked directly to output. So that, there is a variable component that doesn't worry us so much. The fixed component, we have to beat each year with increase in yields and throughput in the factory and also changes in the mix. So that is why the Company thinking was completely reoriented. And price hike is not the lever for growth was the new way of thinking. And we've achieved that over the last 17 months.

Moderator: Thank you so much. Ladies and gentlemen, we would take that as our last question. I would now like to hand the conference over to the management for closing comments.

Ayush Bagla: Thank you everyone, for attending this call and for showing interest in CERA Sanitaryware Limited. CERA remains positive that its strong positioning in the industry, overall economic growth would help it deliver steady and consistent growth going forward. Should you need 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. Thank you.

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.

Disclaimer: This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.