



Cera Sanitaryware Ltd.

Q3 FY24 Earnings Conference Call Transcript

February 13, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Q3FY24 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Devrishi Singh from CDR India. Thank you and over to you Mr. Singh.

Devrishi Singh: Thank you. Good morning everyone and thank you for joining us on the earnings conference call for Cera Sanitaryware Limited for Q3FY24 earnings which were announced yesterday. We have with us today the management team comprising Mr. Vikas Kothari - CFO and Mr. Deepak Chaudhary - General Manager, Finance & Audit 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 like to turn the call over to the management and invite Mr. Deepak Chaudhary to make his opening remarks. Thank you and over to you, sir.

Deepak Chaudhary: Thank you. Good morning, everyone. On behalf of the management team of Cera Sanitaryware Limited, I would like to welcome you all to our earnings conference call. The earnings for the quarter ended December 31, 2023, were adopted by the Board of Directors yesterday, 12th of February 2024. The earning documents have been released to the stock exchanges.

During the quarter gone by, CERA continued to make considerable progress in its strategic initiatives and has strived hard to support the overall business momentum. This quarter's performance, however, was marked by a challenging market-led slowdown characterized by subdued demand across key markets. Overall sales, during the quarter gone by, were muted due to market volatility originating from reduced discretionary consumption which was impacted by increased inflation, hike in interest rates and challenging climatic conditions across the country.

In addition to the general softness and consumer spending, there were certain specific local factors in some of our key markets which have impacted the

demand for our products. For instance, in Delhi, construction was prohibited for an extended period of 40 to 45 days, as compared to the usual 15 to 20 days. Additionally, in Delhi NCR, the registration of properties exceeding G+3 were banned, impacting demand. In Kerala, the local body introduced a higher duty structure on the housing sector, affecting consumer sentiments and leading to deferred purchase decisions. Further, we understand that the working capital positions of retailers have increased, causing dealers to turn cautious in extending additional credit to retailers and sub-dealers. However, it's essential to note that these challenges are temporary and short term. Despite the current circumstances, we remain optimistic about our strong fundamentals and overall growth prospects.

Q3FY24 revenues experienced a 4.2% decline compared to the corresponding period last year. Aligned with our strategic objectives to boost market share, expand our retail footprint and deliver value added product to the consumers, we have refrained from implementing any price adjustments since May 2022, maintaining a price stability for nearly 20 months now. Now, the Company has recently undertaken a price increase, effective from February 2024. The average price rise taken in the sanitaryware segment is 2%, while no price adjustments have been made in the case of faucetware.

Effective cost management and improvements in operational efficiencies have empowered the Company to sustain margins without necessitating any major price increases. Given the adequate inventory levels, we moderated the manufacturing pace slightly during this quarter and our sanitaryware plant operated at capacity utilization rate of 85%.

The operating performance remains stable, and the Company maintained its gross margin at 54.2% in the current quarter versus 54.5% in the corresponding quarter of the previous year. EBITDA in the current quarter stood at Rs. 75.41 crore as against Rs. 86.55 crore in the corresponding previous quarter. EBITDA margin decreased from 18.4% in Q3 of the previous quarter to 16.7% in the current quarter. This decline was primarily due to higher advertising spends largely to promote the new products introduced over the last three years, which will enable the Company to capitalize on the premiumization theme. Therefore, our advertising spend has increased from Rs. 17.34 crore, which constituted 3.8% of sales in the previous year corresponding quarter to Rs. 21.91 crore in Q3FY24. This constituted 5% of sales. Consequently, a 1.2% change in EBITDA can be attributed to the increased advertising expenditure. Additionally, increased sales promotion expenses impacted EBITDA by 0.7% as these expenses rose due to higher product schemes offered by the Company in response to challenging demand conditions. The subdued sales resulting in lower absorption of fixed costs further affected the EBITDA margins by 0.5%.

CERA has been consistently advancing its premiumization strategy by introducing value added products to its portfolio. Notably, the new SKU's introduced over the past three years constituted 32% of the total sales for the quarter.

In alignment with our commitment to elevating the customer experience, CERA has initiated a comprehensive makeover of over 1,500 'display centers'

across the nation. To align with the premiumization trend, a thorough on-ground study is being conducted to spotlight premium products in targeted locations, ensuring a strategic approach to meeting evolving consumer preferences.

Furthermore, CERA is placing increased emphasis on involving various influencers, particularly architects, in our product value chain. Our earlier initiatives, such as the retailer loyalty and plumber loyalty programs, were crucial steps in fostering partnerships and aligning stakeholders to contribute to CERA's growth story.

In Q2FY24, we successfully commissioned our faucetware facility expansion program, enhancing our monthly capacity from 3 lakh pieces to 4 lakh pieces. In Q3FY24, our faucetware capacity utilization reached 82% after considering the augmented capacity from the brownfield expansion. The completion of this expansion project was achieved within the scheduled timeframe and at a cost much lower than the budgeted estimate. Furthermore, construction of civil facilities to accommodate the future increase in capacity from 4 lakh to 6 lakh units per month has been successfully completed. With this completion, no major capital expenditure for this faucetware brownfield expansion project is anticipated for the next three to five years. Our confident outlook is based on the robustness of our established vendor ecosystem, which positions us well to efficiently manage any spike in the demand. Additionally, our product mix strategy, which includes a variety of colored SKUs, quarter turn SKUs, PVD SKUs, and additional SKUs sourced from external partners, continues to enrich and diversify our product portfolio.

Furthermore, in our sanitaryware division, a substantial portion of the land parcel was acquired in January 2024 for our greenfield expansion project. This new plant is expected to be operational within 18 months from the zero date, with an estimated cost ranging between Rs. 125 to Rs. 130 crore. These strategic capacity expansion initiatives in both our sanitaryware and faucetware emphasize our commitment to broadening our portfolio of value-added products. These products will be exclusively manufactured within our facility, leveraging advanced technical capabilities, and adhering to vigorous quality standards.

In sanitaryware, cost of raw materials like 'China clay' went up by 19% and 'feldspar' by 4%, while 'plaster of paris' and 'glaze' went down by 1% and 2% respectively in Q3 FY24 as compared to Q3FY23. Zinc experienced a decrease of 26%.

At the manufacturing level, operational efficiency witnessed significant improvement, resulting in higher overall yields. This, coupled with cost optimization programs supported to offset the impact of increased input and labor cost.

In the faucetware segment, brass prices recorded an increase of 4%, while the Zamak prices saw a decline of 17% compared to Q3FY23.

Gas prices remain favorable during the quarter. The average price from GAIL was Rs. 28.78 per cubic meter in Q3FY24 as opposed to Rs. 35.43 per cubic

meter in Q3FY23. Similarly, the average gas price from Sabarmati was Rs. 47.56 per cubic meter in Q3FY24, down from Rs. 71.9 per cubic meter in Q3 FY23. However, it has registered an increase of 7% on a quarter-on-quarter basis.

This positive trend is further supported by increased drawl of gas from GAIL, reaching 82% in Q3FY24 compared to 67% in Q3FY23. The weighted average cost of gas in Q3FY24 was Rs. 32.21 per cubic meter, significantly lower than Rs. 47.33 per cubic meter in Q3FY23 and notably, below the industry average. Gas cost constitute 1.44% of the total revenue.

Our consistent commitment to ESG began in 1995 with the inception of our journey through the establishment of a wind energy facility. Evolving over the years, we expanded our capacity, and in 2014, seamlessly integrated a solar plant into a growing sustainable energy portfolio. Notably, in the first nine months of FY24, approximately 80% of the energy needs for our two manufacturing facilities were met through our internal renewable energy sources.

CERA introduced the retailer loyalty program in Q2FY23, and now, after 18 months, over 18,000 retailers have been enrolled who have uploaded a total of 2.53 lakh invoices on the retailer loyalty app. The feedback received from retailers has been instrumental in grasping, evolving consumer demands, understanding geographical SKU segmentation, and refining our reward program for retailers. In addition to standardizing invoices, a noteworthy achievement was recorded during the quarter; - out of the total retail sales amounting to Rs. 243 crore, over Rs. 82 crore in sales were eligible for awards under this program. This constitutes 34% of the retail sales.

New product introduction stands as an important catalyst for CERA's growth trajectory. In the previous financial year, that is FY22, we unveiled a total of 72 new products, a notable progress considering that historically on an average 100 new products were launched annually. The momentum continued in FY23, witnessing an impressive launch of 699 new products. In FY24, a total of 202 new products were introduced till December, which includes 74 new products being launched in Q3FY24.

The sharp increase in new design and product launches over the last three years has led to a substantial allocation of resources, both at the manufacturing and customer experience levels. As a result, New Product Developments or NPDs introduced in the last three years now contribute to 30% to 35% of the total sales. In efforts to further enhance the Company's product portfolio, CERA remains dedicated to developing hygienic and water-saving products. Key focus areas include premium products like 'rimless EWCs', and 'thin rim tabletops', where our manufacturing facilities committed to ongoing innovation, producing these items at costs substantially lower than those imported from China.

In Q3FY24, China imports were Rs. 15.6 crore, a 3.57% of sales as compared to Rs. 19.6 crore or 4.3% of sales in Q3FY23. CERA was already one of the lowest users of products 'Made in China' and its capabilities developed in-

house, the percentage of Chinese imports to sales has been continuously declining.

In FY23, we recorded our highest-level advertising expenditures amounting to Rs. 57 crore, representing 3% of our sales. Continuing the same pace, our publicity spending stood at Rs. 48 crore during 9MFY24 as against Rs. 33 crore in 9MFY23.

In our sales breakdown, tier 1 cities accounted for 34% of sales, tier 2 cities contributed 21% and tier 3 cities led with 45% of the sales.

In conclusion, I would like to say that as we navigate the current landscape and address short-term challenges, our focus is on maintaining leadership in the sanitaryware and faucetware industry and on driving sustainable growth. Today, our Company is dedicated to leveraging its core strengths, which include advanced manufacturing capabilities, a diverse product range and expansive network, exceptional after sales service, robust brand recognition and financial stability. These foundation pillars collectively fortify our market position. We firmly believe that these unique qualities not only empower us to face and overcome broader macro-led challenges, but also strategically position us for continuous growth, delivering value to our stakeholders.

With this, I would like to hand over to Mr. Vikas Kothari – our CFO, who will present the operational and financial highlights for the quarter ended 31st December 2023. Thank you and over to you, Mr. Kothari.

Vikas Kothari:

Thank you and a very good morning to everyone. I would now like to address a brief overview on the Company's financial performance for the quarter-ended December 31st, 2023.

Revenue from operations stood at Rs. 437 crore in Q3FY24 versus Rs. 456 crore in Q3FY23, a decline of 4.2%. EBITDA without other income was Rs. 59 crore in Q3FY24 versus Rs. 73 crore in Q3FY23. The gross margin remain stable and stood at 54.2% in Q3FY24 against 54.5% in Q3FY23. Profit after tax was Rs. 51 crore in Q3FY24 versus Rs. 56 crore in Q3FY23, a decrease of 9.7%. EPS for the quarter stood at Rs. 39.12 versus Rs. 43.34 in Q3FY23.

For Q3 FY24, 52% of the topline was from sanitaryware, 36% from faucetware, tiles represented 10% and wellness 2%. On a Y-o-Y basis, faucetware revenues registered an increase of 5%, sanitaryware revenues declined by 8%, tiles decreased by 19% and wellness increased by 29%. The sanitaryware and faucetware verticals remain the bedrock of our business and contributing 88% of overall revenue.

The classification of overall sales in Q3FY24 was 43% in premium category, 34% in mid category and 23% in entry level category. The changes in the working capital position in the current quarter as compared to the corresponding quarter for the previous year were as follows; - Inventory days reduced from 83 days to 79 days, receivable days reduced from 30 days to 27 days and payable days increased from 37 days to 46 days. Therefore, the net working capital days were reduced from 76 days to 60 days in Q3 FY24.

As on December 31st, 2023, our cash and cash equivalents stood at Rs. 768 crore against Rs. 597 crore as on December 31st, 2022 registered an increase of Rs. 171 crore or 29%. Cash flows for the quarter remain positive at Rs. 49 crore versus Rs. 58 crore in Q3FY23.

In conclusion, I would like to emphasize that, given the various inherent strength and our dominant position within the sector, we are committed to maintaining strong financial discipline. Going forward, CERA remains positive and focused on consistently improving its financial performance.

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

Moderator: We will now begin the question-and-answer session. The first question is from the line of Praveen Sahay from Prabhudas Lilladher. Please go ahead.

Praveen Sahay: The first question is related to your target. So, basically in the last and the previous quarter calls you had given a target that by September '25 some Rs. 2,900-odd crore of revenue and also you had said around Rs. 2,500-crore by March '25. And looking at the (inaudible 21:29 min.) performance so far in the nine months, is that target quite intact or is there any change in that?

Vikas Kothari: Regarding the target part what we have given earlier, so the earlier guidance of achieving the revenue target was given and currently we are in the month of February and are in the process of working out our annual operating plan for the next financial year. So, once this exercise will be completed, we will be able to update the guidance. Till such time we are not changing the guidance. Any comment on this will be expected in the next earnings call. But, let me assure you that we remain committed to the sustainable growth and the medium and long-term outlook is quite encouraging.

Praveen Sahay: On the segment side on the same note, in the last call for the faucetware you have given around some Rs. 750-odd crore for this year. But if I look at your run rate so far, you need to do around 50% of a growth in the fourth quarter. Will that be achievable for the fourth quarter?

Vikas Kothari: So for the current financial year, as we all know that Q3 was a tough quarter and we experienced demand pressures across all key markets. Even I would say to be honest, January '24 continues with the sign of moderation and the sales were lower than expected, and we have seen that even the competition was not away from these headwinds, which is evident from the results also. So, the growth projections given earlier for the current financial year have been impacted by the weak demand conditions starting from the month of November as is evident from our Q3 results. And in October, when we had our last earnings call, we were far ahead in terms of the growth part in terms of the previous corresponding period. But from November, the things have changed, the slowness as far as demand is concerned was there. So typically, what we understand, March is the best month of the year where we have the higher sales than average. However, considering the nine-month results, it is apparent that the growth for the financial year '24 is likely to be moderate.

- Praveen Sahay:** The second question is related to that, is there any market share loss are you expecting because if I look at the players who are in the elite product, even the size is small, but they are growing much faster in terms of incremental sales than the leaders. So, is there a market share loss also in the bathware segment as a whole you are seeing?
- Vikas Kothari:** So ideally speaking means if you see the CERA's growth trajectory, we are quite confident as far as sanitaryware and faucetware segments are concerned, and with the long-term strategy with respect to making these two segments which are underpinned by our commitment to innovation, operational excellence and market expansion, so we do not see any sort of challenge from the other players. And as far as gaining of the market share is concerned, so we are betting on our innovation part and like I told, means, for the last three years, the innovations or the new products that we have introduced are healthily contributing around 32% to 35% of our total turnover.
- Praveen Sahay:** Sir, next question is on the advertisement expenses. As guided for Rs. 65-odd crore for this financial year, you already done around Rs. 48, 49 crore. So that is intact or is there some revision in that as well?
- Vikas Kothari:** So ideally speaking as far as the market share or the voice of share to cover the part of CERA is concerned in the brand image building, so we are continuing with the same pace of spend what we did last year and almost if we compare in terms of the value, we have spent around Rs. 22 crore in Q3 FY24 versus the previous corresponding Rs. 17.34 crore. With this spend, we are continuing the pace of our brand recognition, and we think, and we expect that all these things will come as a fruitful results in terms of the growth levelers for our revenue generations.
- Moderator:** The next question is from the line of Sayan Das Sharma from Bajaj Finserv Asset Management. Please go ahead.
- Sayan D Sharma:** Two parts to the first question. I mean, frankly, a little surprised to see a revenue decline in sanitaryware because what I associate, sanitaryware to be a very stable category because the large part of the demand also comes from replacement. So, it will be helpful if you can share some more color, is it only specific to CERA because of our mix in particular States, particular tier 3, tier 2 cities, etc., And how do you see what needs to change for the growth to come back for the entire category, not only for sanitaryware to that extent? And secondly, I mean we see a lot of real estate demand nearing completion, but all these building material categories are not doing well. So, just wanted to understand your sense on how growth should pan out in the next few quarters may not be quantitatively, but if you can make some qualitative comments?
- Vikas Kothari:** Coming to the part of the growth in sanitary and other segments, so ideally speaking means if we see our H1 figures, so we have the volume growth in total by 10% and Q3 as we all know that we experienced the demand-related issues across all the key markets. So, there was a revenue growth up to the H1 is concerned. And coming to the part of sanitaryware, and if we see the actual figures, we were having the growth of around 5.5%, which was subdued in Q3, decline by 8%. However, in case of faucetware we have a very good increase

in terms of the growth; it was around 9% to 10%. So overall, if we see, because of the short-term phenomena or the temporary phase which is going on means we see some sort of ups and downs within the demand patterns. However, we are very optimistic that this situation will improve from FY25 onwards, which is going to be supported by real estate upswing, retail market improvements and increasing home renovations. And as you all know that real estate market is doing extremely well and it is expected that the same will continue in future, so we do not see any major challenges as far as our products demand is concerned. And like you all know, most of the real estate projects are nearing to completion. And since products like sanitary, faucets, tiles and even paints, they are installed in the final stage. So, we are likely to see the increase in consumption pattern in the FY25. And also adding to it means we are having good number of projects enquiries in pipeline. So, institutional sales from Government projects, educational projects, hospitality and medical, they are also going to add positively to our demand factor. In general, I would say, the general macroeconomic factors remain positive with the GDP growth of the country projected at 7%. So as such means it's a short-term phenomenon and it is experienced by all the industries.

Sayan D Sharma: Have you seen any divergence in demand trends from your tier 1 cities versus tier 2, tier 3 cities, is one growing faster or demand slower in one pocket of this market versus the other?

Vikas Kothari: No so if we see the pattern of the tier cities, largely, there is no major change. It is same as the Q2 what is there. So, no major change in the composition.

Moderator: The next question is from the line of Rahul Agarwal from Incred Equities. Please go ahead.

Rahul Agarwal: First question is on the capex. You mentioned faucet capex was pretty low than budgeted. You also mentioned that the 4 lakh pieces have now gone to 6 lakh pieces. I wanted to know how much did we spend from 3 lakh to 4 lakh pieces and then from 4 lakh to 6 lakhs? And secondly, what is the potential for sales in out of this increased capacity, and how much time will it take to ramp up to peak utilization?

Vikas Kothari: So I think there needs a clear understanding on this statement what was given. So ideally the faucetware brownfield current expansion is from 3 lakh to 4 lakh units and this expansion is on the ramp up phase, so almost 60% of this ramp up has been done, and we expect that by March we will be able to reach out to 4 lakh pieces. The second part was means with respect to the civil activity or the civil facility has been developed for the future expansion from 4 lakh to 6 lakh pieces so that the civil work has already been done. And later on, whenever we feel that the demand is getting picked up or where we feel that we need to increase our capacities, it will be just the balancing of the necessary plant and machinery. So, the facility is created for a further boost from 4 lakh to 6 lakh.

Rahul Agarwal: How much did we spend capex for 3 lakh to 4 lakh ramp up for the expansion?

Vikas Kothari: So ideally we are quite within the budget and we have spent around Rs. 41 crore for getting this brownfield part by removing and some of the cost

optimization savings have come by way of debottlenecking the processes and taking the advantage of the current facility.

Rahul Agarwal: And the incremental 1 lakh pieces should add about what kind of sales because my understanding is 50% is outsourced for the Company in faucets before this expansion?

Vikas Kothari: So our understanding is, this incremental 1 lakh pieces per month contributing to 1.2 million pieces annually, they are going to contribute around Rs. 240 crore.

Rahul Agarwal: Because the way I am working with the math is currently let's say your 3 lakhs pieces a month make about Rs. 600 crore of topline. That Rs. 600 crore is 50% outsourced, right? So, if I assume that 3 lakh pieces should deliver Rs. 300 crore topline. So additionally on a 1 lakh piece topline which is 40% addition, the sales number looks pretty high to me.

Deepak Chaudhary: I'll tell you why this is happening is because currently the faucetware which is producing 3 lakh pieces is having a mix of all SKUs, they would be entry level SKUs, they would be middle level SKUs and they would be premium SKUs. So like, as of now we are making a mix of products. But the increased expansion, once it reaches the entire production of 1 lakh units would be catered mostly towards the premium products. So, the incremental revenue that will come in from the 1 lakh units would be different from the revenue which you are seeing from the current plant, which is a mix of all the products which we are producing and selling right now. So, there's a difference in the kind of mix which will be going into the new plant. That's where the differences are.

Rahul Agarwal: Right, I agree, it looks like a twice the difference, right. So, I was just wondering, like what kind of premium products are doing, but I get your logic and I get the understanding. Secondly, similar question is on the sanitaryware. Majority land is acquired. So, could you help us understand how much land is acquired, what is the balance and what is the capex for the land spent right now?

Vikas Kothari: Regarding this sanitaryware greenfield, so substantial portion that is about 75% of the total proposed area has been acquired and registered in January 2024. For the balance portion of the land, the due diligence is going on and it is expected that it is going to be complete by June '24. The estimated cost of this greenfield will be around Rs. 125 to Rs. 130 crore including land. And once this total acquisition is completed, we shall be able to comment the startup of the construction of this particular plant. So, I think this is largely means the notable you can say achievement in the month of January where the substantial portion has been acquired and registered.

Moderator: We'll take the next question from the line of Raj Shah from Marcellus Investment Managers. Please go ahead.

Raj Shah: When you mentioned that even competition is facing some challenging demand scenario, but if we see results of your listed competitor who is more or less similar in size, they have reported Y-o-Y single digit revenue growth

number. I was just wondering where is the gap between our outlook and theirs, because they are reporting good revenue numbers?

Deepak Chaudhary: Your voice was quite muffled. If you can repeat the question again, please.

Raj Shah: My question was our listed competitor who is more or less similar in size, they have reported single digit revenue growth numbers. So, this shows that there is some market share loss for us. So, I was just wondering where is the gap between ours and their demand outlook?

Deepak Chaudhary: You're looking at a figure of one quarter. So, one quarter you cannot extrapolate it to say that we are losing or gaining market share. This has been true what you're suggesting in the current Q3 quarter, but on an overall basis, if you see comparing the last few quarters, you'll find that there has been a significant difference between the performance of CERA vis-à-vis the competitors, especially the competitors which you are talking about. So, there's a huge gap between the growth numbers that we have done in the previous quarters. This current quarter was kind of a you can say outlier because of the demand conditions. But we foresee that with Q4 and maybe more so in the next financial year, the demand would again be good and will be performing well. So, the difference which is there is only in the current quarter, should not be reflected in the future.

Raj Shah: If you can repeat about some local duties or taxes that was implemented in Kerala. The opening comment was not clear about it.

Vikas Kothari: In Kerala, the local body introduced a high duty structure on the housing sector which has affected the consumer sentiments and thereby leading to deferment of some purchasing decisions.

Raj Shah: How much Kerala would contribute to our say top two, three States in terms of revenue?

Deepak Chaudhary: Kerala would be contributing with a region of 10% of our total sales.

Moderator: We'll take the next question from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: The first question is like you pointed out; we have been outgrowing most of the peers, including the large one for the last several quarters. Now what I'm trying to figure out is that what has driven that outperformance and how is it changing now; was it actually driven by more retail expansion and that is now peaking out or was it more driven by the new products and now that is peaking out, any more color on both these aspects please?

Vikas Kothari: Ideally, as far as the outlier is concerned, what we say is the growth is driven by multiple factors, so means innovation is one of the factors which is giving us the growth levers in terms of boosting our revenues. So, if you have seen whatever the products, we have introduced in the last three years, have generated around 32% to 35% of our total turnover. Secondly, in terms of making us different from others means the operational efficiencies have

improved which has resulted into sort of the lower cost of production. And in terms of the other part where we see that the expenses and other things what we are doing, we are controlling through our different cost optimization programs which are making us to sustain even in spite of the fact that we have not taken any price rise for the last 20 months.

Achal Lohade: Sorry sir, probably I wasn't very clear in the question. What I was asking is more from the topline growth perspective in bathware which is sanitaryware plus faucetware. We have been outperforming in the past for several quarters as compared to the peers. In terms of the premium mix if you could guide three years back, what was it and what is it now. You've mentioned the products introduced in last three years but is it fair to assume all the products introduced in the last three years is all premium or you want to give a separate number for premium mix for Q3FY23 and Q3FY24 as well as say three years back?

Vikas Kothari: So I think as far as mix is concerned between the categories, more or less the mix is maintained in the previous few quarters. So, premium is contributing roughly 43%, mid is contributing 34% and at entry level it is 23%.

Achal Lohade: This is for Q3FY24. How would that be for Q3FY23 sir?

Vikas Kothari: So for FY23 it was 45% in the premium category and mid category it was 28% and entry it was 27%.

Achal Lohade: So, it is mid which has grown and a decline in the premium?

Vikas Kothari: So ideally speaking, it's a combination of 'mid' and 'premium' where we are largely concentrating on improvement in these two particular parts. And if you see there is a decline in the 'entry' segment, which was earlier 27% and now it is 23%. Lot of value additions have been put under these two categories, 'mid' and 'premium'. And like composition point of view, if we see 'entry' is declining.

Moderator: We'll take the next question from the line of Utkarsh Damania from NV Alpha Fund Management LLP. Please go ahead.

Utkarsh Damania: I had a few questions. Sir, in the fourth quarter coming near elections coming up. So, do we see any demand subdued due to this and would it affect our sales and margins profile as well?

Vikas Kothari: So, I think as these elections are going on, so in the coming times means some pressures might be there, but in general means from the FY25 onwards we see that lot of completions with respect to real estate projects will be there, and our products which are at the last stage of the installation, so those things will come out and the consumption pattern will increase. But this is going to be a short-term impact as far as these elections are concerned.

Utkarsh Damania: Does the Company has any plans for any ESOPs programs or is the Company looking after any new ESOP program or something?

- Vikas Kothari:** So, regarding the ESOP part and others, the Company is maintaining a healthy cash reserve of Rs. 768 crore. And as we have seen, the Company has increased its dividend significantly in the past two years. And I think in the last year the distribution was around Rs. 65 crore. The payout was almost around 31% of the PAT and the Company will continue to maintain this healthy dividend payout in the coming years. The Company may explore options of buyback and other routes to return excess cash or excess money to the shareholders. Currently, no such proposal has been placed before the Board.
- Utkarsh Damania:** Regarding the Anjani Tiles divestment, so Anjani Tiles we were catering to the Southern States. So can you provide what would be the geographical breakup currently, or if the South sales have gone down?
- Deepak Chaudhary:** See broadly, there has been no change in the sales in the South on account of closure of Anjani Tiles. The idea behind the Anjani Tiles was that it is a market in the South, so that it will be able to cater to the South market in the sense that the transportation cost would be lower. But we have experienced over there that the cost of production, which was coming in, was slightly higher and the benefit which was supposed to be offset by the lower transportation cost, we were not achieving that. So even otherwise, even while Anjani Tiles was a part of our portfolio, the cost vis-à-vis Morbi was not lower. Because the cost of production in Anjani was higher as opposed to the cost of procurement, which we were able to do from Morbi. So, with the divestment in Anjani Tiles, there has been no loss in the market share on account of the fact that the divestment has happened.
- Moderator:** The next question is from the line of Priyanshu Agrawal from Unifi Capital Private Limited. Please go ahead.
- Priyanshu Agrawal:** Just wanted to understand on the near term. So, what has really led to the slowdown? So one you explained that the Kerala State has increased the stamp duty but any other phenomena which is affecting our near-term performance, if you could please explain that?
- Deepak Chaudhary:** Priyanshu, we are coming back to the same circle again and again like we are all talking about growth. So, all I would like to say is that macroeconomic factors were not conducive in this quarter, and it has led to a demand slowdown. But to pinpoint what exact reason has been there for this particular slowdown would be difficult because it's not a one factor which has affected, it is a multiple number of factors go to this particular demand weakness. So, we feel that this demand weakness is temporary kind of a situation and going forward it will improve.
- Priyanshu Agrawal:** My second question is, you mentioned that the dealers are sort of sitting on higher inventory. So, if you could just throw some light on the current inventory in the channel and has it stabilized in January, February months, and what is your sense, will we be incurring more sales promotion expenses because of this higher inventory challenge with the dealers?
- Deepak Chaudhary:** We had experienced difficulties in the month of November, and it had continued in the month of January also. But now currently in February, we are seeing an upswing, and we hope that this upswing will continue for the month

of February. And as Vikasji has mentioned earlier also, like March typically is our best part of the year where the dealers in order to get the benefits of the turnover, discounts and various other schemes which have been launched during the year, they do a large part of their uptick in the month of March. So, we do not see as of now a challenge in that particular month being weak. So, we have already started seeing improved sales from the month of February and we hope that it will continue in the month of March also.

Priyanshu Agrawal: Sure, if you can just give a range of the sort of growth that you're seeing in February and March, that will be useful, sir?

Deepak Chaudhary: That is not possible because these are all kind of numbers which keep on changing and we cannot even disclose them right now. So hopefully once we are there in the next concall, I can give you the numbers.

Moderator: The next question is from the line of Shaurya Shah from Equirus Securities Private Limited. Please go ahead.

Shaurya Shah: So, with our focus on faucetware segment and expansion of capacity to 6 lakh pieces from 4 lakh pieces earlier and the greenfield capacity coming up for sanitaryware segment, where do we see the contribution from sanitaryware and faucetware divisions from the current 52% and 36%, going forward?

Deepak Chaudhary: The proportions more or less would be remaining the same. Like even with the expansion coming in, you'll find that faucetware may go up slightly, but on an overall basis, it will be remaining the same that we're doing right now.

Shaurya Shah: It was mentioned that there was a price hike of 3% for sanitaryware in Q3. I am not sure if it was already mentioned, but was there any price hike for tiles division during the quarter?

Deepak Chaudhary: The tiles is more of a marketing operating price, which keeps on going on. In case of sanitaryware and faucetware, it is more like the prices are revised on a periodical basis. But in case of tiles, we kind of look at the procurement price that we are able to get, and based on that we price it in the market. So, price is a more dynamic kind of a thing, and you will not find the price increase over there the way that we do it in case of faucetware and sanitaryware.

Moderator: Ladies and gentlemen, this will be the last question for today, which is from the line of Onkar Ghugardare from Shree Investments. Please go ahead.

Onkar Ghugardare: Just now what you said is that this demand slowdown in overall market of yours is a temporary phenomenon and the overall growth outlook which you have given earlier remains the same, right?

Deepak Chaudhary: Correct.

Onkar Ghugardare: For how long this demand slowdown do you expect?

Vikas Kothari: What we expect is means it's a short-term phenomenon and maybe year we will see means there may be some impact of elections, but from the next

financial year definitely being different projects are under pipeline and we see that lot of real estate projects which are near to completion. So, at that stage next year we will be having a more consumption of the sanitaryware and faucetware items. So it's as per our understanding, we take it as a short term and the things will improve from FY25 onwards where we will again have the growth moving forward.

Onkar Ghugardare: So, you expect one more quarter of pain of demand slowdown, that's what you mean to say, right?

Deepak Chaudhary: As of now, you can say maximum Q4 because we already have a good kind of project bank building up. So, orders are coming in over there which should be executed in the next few months. So, we are confident about the future like FY25 onwards.

Onkar Ghugardare: Another question is on the cash utilization. You have mentioned that you have already increased the dividend payout and we'll be exploring the possibility of buyback, which you haven't done at this meeting but possibly in the future you can do it. So, like what is the management thinking on utilization of cash apart from this, I don't think you will be incurring any major capex apart from this?

Vikas Kothari: I think I have already answered this question. Means as far as management thought process is concerned, so means whatever the expansion programs we are having, they are through internal accruals. So, brownfield, we have recently completed. In case of sanitaryware greenfield the acquisition has been done and again the complete construction and operationality of that plant will be through internal accruals only. As part of the dividend, we are going to maintain or increase the payout ratios what we are doing. And additionally, like I told means we are exploring the options of buyback also in whatever the best way we can return the excess cash back to the shareholders.

Onkar Ghugardare: The Company is not finding any inorganic opportunities to maybe buy some smaller players?

Vikas Kothari: Firstly as far as these capex expansions are concerned what we are doing, so these expansions will give us a sufficient room in terms of building the capacities to meet out the future demand options, and right now, there is no such thought process. So, in future if it will be there, we will see accordingly. But right now, we are going to have these expansions completed first.

Moderator: As that was the last question, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Deepak Chaudhary: Thank you, everyone for attending this call and for showing interest in CERA Sanitaryware Limited. Should you need any further clarification or would like to know more about the Company, please feel free to reach out to me or Mr. Vikas or CDR India. Thank you once again for taking the time to join the call.



Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Cera Sanitaryware Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines.

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