

# CERA

## CERA Sanitaryware Limited

### Q4 FY24 Earnings Conference Call

May 14, 2024

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**Moderator:** Ladies and gentlemen, good day, and welcome to the Q4FY24 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. Devrishi Singh from CDR India. Thank you, and over to you, sir.

**Devrishi Singh:** Thank you. Good morning, everyone and thank you for joining us on the earnings conference call for Cera Sanitaryware Limited for Q4FY24 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 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 for their opening remarks. Thank you, and over to you, sir.

**Deepak Chaudhary:** Thank you, Devrishi. Good morning, everyone. On behalf of the management team of Cera Sanitaryware Limited, I would like to welcome you to our earnings conference call. I will begin by sharing some updates on operations and strategy, following which our CFO; Mr. Vikas Kothari will run you through the key financial highlights.

The challenging market situation, particularly in terms of demand persisted from Q3 through Q4 of FY24. Despite the tough conditions, Cera not only maintained, but marginally improved upon the sales achieved during the corresponding Q4 of FY23. The Company achieved a revenue of INR 547 crore during the quarter under review, reflecting a growth of 2.6% compared to the turnover of INR 533 crore achieved in the corresponding Q4 of FY23.

Looking ahead, we anticipate the trend of sluggish demand conditions to continue in Q1FY25 with a further exacerbated by the ongoing general elections in April and May. Additionally, seasonal factors like prevailing extreme heatwave conditions in many parts of the country, shortage of labor, especially in the real estate sector are expected to pose further challenges. However, we remain optimistic that post Q1FY25, the overall demand situation will improve in the quarter thereafter.

The Company has finalized its long-term operating plan for 3 years after integrating detailed inputs from sales Executives, zonal heads and the marketing department. We have also taken into consideration prevailing market conditions in the building materials industry. Originally, aiming for INR 2,900 crore in sales by September 2025, the target date has been recalibrated to March 2027, that is a stretch of 1.5 years. This adjustment reflects a compounded annual growth rate of 16.02%, displaying the Company's resilience to navigating tough market conditions while aiming for sustainable growth.

As you are aware, Cera is strongly positioned in the premium segment with a wide array of products. We are also present in the luxury segment. However, in the past, this segment has not enjoyed significant depth and volumes as compared to the premium segment. We believe that this is set to change over the next 3 to 5 years, wherein Cera shall be focusing on increasing its presence in this segment as well as growing the market share.

In the recent past, especially post-COVID, there has been a growing consumer preference towards spending larger sums of money on buying luxury properties and using high-value fittings in the bathroom space. There are a large number of luxury projects coming in the major cities, and it is expected that the segment shall be growing at a very fast pace.

Cera is now strategically positioning itself to strongly capitalize on the growth opportunities in this segment. In this direction, we had recently, already introduced the Luster brand last year and also rejuvenated the existing Senator brand. We intend to launch new products within these ranges to cater to the discerning customers. These new products will showcase innovative and aesthetic designs with value-added features that resonate with the luxury seeking customers.

Cera plans to launch dedicated brand stores to showcase these premium offerings and enhancing the customer experience. Furthermore, Cera is actively collaborating with influential architects who play a crucial role in shaping new design trends and project specifications to promote the sale of these products in the luxury developments and high-end projects. While we are advancing towards a more premium market stance at Cera, we are equally committed to honouring our roots in the traditional segments. Our strategy involves seizing opportunities across the board, ensuring that we remain relevant and competitive in all market segments, maintaining our margins. This balanced approach not only strengthens our market position, but also underscores our adaptability and commitment to serving a diverse customer base.

The sharp increase in new design and product launches over the past 3 years has involved substantial efforts and is paying rich dividends with new product development accounting for 30% to 35% of the total sales.

In Q4FY24, our China imports totalled INR 10 crore, representing 1.8% of the sales. Cera has consistently maintained a strategic approach to minimize reliance on products made in China, leveraging our in-house capabilities.

In our previous conference call, we had announced the successful completion of the faucetware facility expansion program, which raised our monthly production capacity from 3 lakhs to 4 lakh pieces. I am pleased to share that following the completion of the ramp-up phase, our plant is now fully capable of delivering 4 lakh pieces per month. During Q4FY24, our faucetware capacity utilization reached an impressive 90%, leveraging the augmented capacity from the brownfield expansion.

Furthermore, the majority portion of the land for our greenfield sanitaryware project was acquired by March 2024. We anticipate completing the acquisition of the remaining land by June 2024. This new plant is scheduled to become operational within 18 months from the zero date with an estimated cost ranging between INR 125 crore to INR 130 crore.

These strategic capacity expansion projects in both sanitaryware and faucetware underscore our commitment to broadening our range of premium products. All these items requiring specific high-quality expertise and technological precision will be exclusively manufactured in our facilities, utilizing advanced technology and stringent quality control measures.

Our routine capex budget for FY 2024-2025 is INR 25.4 crore. This includes essential upgrades in our sanitaryware and faucetware plants, focusing on machinery replacement, enhancing customer touch points and IT-related developments, ensuring operational efficiency, business continuity and improved logistics.

Cera had introduced the Retailer Loyalty Program in FY 2022-2023 and now after 2 years, we have successfully enrolled over 19,300 retailers, with a total of 2.9 lakh plus invoices uploaded on the retailer loyalty app. The feedback received from retailers has been instrumental in understanding the evolving consumer demand, geographical SKU segmentation and refining our rewards program. Out of the total retail sales amounting to INR 291 crore, rewards eligible sales totalled over INR 109 crore, representing 37% of retail sales.

In FY24, we recorded advertising expenditure amounting to INR 63.2 crore, representing 3.4% of our revenues. Increasing our advertising expenditure has proven highly beneficial, yielding significant returns across various metrics, enhanced brand visibility and customer engagement resulting from increased exposure have reinforced our market presence.

This year, we focused on a comprehensive 360-degree amplification of our new TV campaign to effectively reach our target audience. We secured premium advertising spaces in key locations such as airports in Delhi and Mumbai, along with prominent outdoor placements. Additionally, we hosted a tiles NPD meet for

potential dealers to showcase our latest product range. Furthermore, we organized various plumber meets to enroll plumbers in our star plumber reward program, strengthening our relationships within the trade community and enhancing brand advocacy amongst industry professionals. These consistent strategic initiatives have significantly strengthened our market penetration and engagement levels.

Effective cost management and improvements in operational efficiencies have enabled the Company to sustain margins without necessitating any price increases. Given the adequate inventory levels, we moderated the manufacturing pace slightly during the last two quarters. During Q4FY24, the sanitaryware plant operated at a capacity utilization rate of 82%.

At CERA, we have a strong track record of retaining top talent. Over 4 decades of journey, our employees have consistently found convincing reasons to stay with us for many years. It's part of Cera's core values to create a supportive work environment, offer comprehensive benefits and nurture a strong Company culture that we have built over the years. These aspects have not only attracted but also helped in retaining the critical talent.

In line with the above, Cera has introduced an ESOP scheme this quarter. This will help to motivate and reward key human resources within the organization on a medium to long-term basis, ensuring stability and longevity in their tenure, enabling them to contribute to the Company's growth plan and retaining knowledge and experience within the organization.

As I have outlined, there are multiple initiatives underway encompassing aspects such as capacity expansion, enhancement of capabilities for complex products, new product development, advertising, and marketing, focus on premiumization, enhancement of network and distribution channels, engagement with influencers, such as architects and plumbers as well as announcement of ESOP plan for greater employee reward. This comprehensive focus has been due to untiring efforts of our promoters to ensure balanced and sustainable growth in the years ahead.

In conclusion, I would like to emphasize that as we navigate through some near-term demand led challenges, the Company remains committed to maintaining its leadership in the sanitaryware and faucetware industry, while promoting sustainable growth. Cera has cultivated unique strengths over the past 4 decades that have set us apart in the industry. Today, we are optimistic about the opportunities arising from positive economic trends and evolving market dynamics.

Looking ahead, with increasing economic activity nationwide and sector formalization, we are confident that Cera will continue to experience strong demand from both B2C retail consumers as well as B2B projects, driven by both our traditional and premium offerings. Moving forward, we are confident in leveraging these inherent strengths to support sustainable growth and deliver enduring value to all stakeholders.

With this, I would like to hand over to Mr. Vikash Kothari, our CFO, who will present the operational and financial highlights for the quarter ended 31<sup>st</sup> March 2024. Thank you, and over to you, Mr. Vikas Kothari.

**Vikas Kothari:**

Thank you, Deepak. A very good morning to everybody. It is my pleasure to update you on the quarterly performance of the Company for the quarter ended 31<sup>st</sup> March 24.

In Q4FY24, revenue from operations stood at INR 547 crore as against INR 533 crore in Q4 FY23, reflecting an increase of 2.6%. In Q4FY24, the Company experienced a notable increase in EBITDA and EBITDA margins compared to Q4FY23. EBITDA in Q4FY24 stood at INR 109 crore as against INR 98 crore in Q4FY23, an increase of 11.2%. EBITDA margin for the quarter stood at 19.3% as against 18.1% in Q4FY23, an increase of 1.2%.

I will just try to explain the major factors leading to such improvement in EBITDA margins. The gross margin of the Company in Q4FY24 stood at 50.5% against 53.5% in Q4FY23, a decline of 3%. This decline in gross margin is mainly due to higher discount offers to address challenging market conditions. Despite the decline in gross margins, the Company managed to offset it by smartly phasing out the publicity spending during the year. As a result, publicity spending in Q4FY24 accounts for INR 15.4 crore versus INR 24 crore in Q4FY23. This has positively impacted EBITDA margins by 1.7%. Further, the increase in other income from INR 9.8 crore in Q4FY23 to INR 16.4 crore in Q4FY24 contributed positively to EBITDA margins by 1.1%. And lastly, cost optimization efforts resulting into savings in opex cost has further supported the EBITDA margin by 1.4%.

In FY24, the Company continued its strategy of investing more in publicity with total spending reaching to INR 63 crore as compared to INR 57 crore in FY23. This deliberate choice underscores the Company's commitment to enhancing its share of voice in the market. Despite challenging economic conditions, this sustained investment reflects the Company's dedication to maintaining strong visibility and market presence, potentially paving the way for long-term growth and competitive advantage.

For the quarter under review, 51% of the topline was from sanitaryware, 38% from faucetware, tiles represented 9% and wellness 2%. On a Y-o-Y basis, sanitaryware revenue registered a decrease of 2%; faucetware revenues increased by 10%, tiles decreased by 10% and wellness increased by 21%.

The sanitaryware and faucetware verticals continue to be the cornerstone of our business. together contributing 89% of the overall revenue. In Q4FY24, 41% of our sales were in the premium category, 35% in the mid category, and 24% in the entry-level category.

Profit after tax was INR 75 crore in Q4FY24 versus INR 62.9 crore in Q4FY23, representing an increase of 19.2%. EPS for the quarter stood at INR 57.69 versus INR 48.39 in Q4FY23.

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 77 to 70 days, receivables days slightly increased from 32 days to 34 days and payable days increased from 40 to 45 days. Therefore, the net working capital days were reduced from 69 days to 59 days in Q4FY24.

As on March 31, 2024, our cash and cash equivalents stood at INR 828 crore showcasing an increase of INR 141 crore or 20.5% compared to March 31, 2023 at INR 687 crore.

In terms of our sales distribution, Tier 1 cities accounted for 34% of the total sales; Tier 2 cities - 21% and Tier 3 cities led with 45% of the total sales in Q4FY24.

During the recent past, internal accruals were utilized to fund the two capital expenditure programs. Looking ahead, we aim to maintain the flexibility to use a portion of our cash and cash equivalents as needed without any plans for debt raising or equity dilution to support the capacity expansions.

Additionally, the Board of Directors announced a dividend of INR 60 per share, representing 1,200% of the face value per share.

In conclusion, I would like to emphasize that given the various inherent strengths and dominant position within the sector, we are committed to maintaining a strong financial discipline. Moving forward, Cera remains steadfast in its pursuit of consistently improving its financial performance.

With this, I would now like to request the moderator to open the line for Q&A. Thank you very much.

**Moderator:** The first question is from the line of Jaspreet Arora from Equentis PMS.

**Jaspreet Arora:** My first question was, if you could just repeat, you said the fiscal year March '27, now we are looking at revenue target of INR 2,900 crore. Did I hear that right?

**Vikas Kothari:** Yes.

**Jaspreet Arora:** Okay. And that's about 16% CAGR from March '24 exit that you've done?

**Vikas Kothari:** Correct.

**Jaspreet Arora:** Okay. Great. The other question was, I missed that number. So, you gave the split of FY24 segment-wise, how well you did, right. So, wellness grew 10%, tiles grew 10%, what was the breakup for the other two?

- Vikas Kothari:** So, the breakup was as far as the sanitary is concerned, there was a decline of 2%.
- Jaspreet Arora:** 2%. okay.
- Vikas Kothari:** Faucetware, there is a growth of 10%, and wellness 21% growth and in case of tiles, decreased by around 10%.
- Jaspreet Arora:** Tiles was minus 10%?
- Vikas Kothari:** Yes.
- Jaspreet Arora:** Okay. Sorry, sir. I heard plus 10. And within this, possible to break it up between volume and price, the trend?
- Vikas Kothari:** So right now, it is not possible in terms of the breakup of trend between volume. So, it is a mix of factors resulting into the segmental performance.
- Jaspreet Arora:** Okay. Okay, fair. And so...
- Deepak Chaudhary:** Like you can write down the numbers also. I am talking about Q4 FY23-24, sanitaryware was INR 273 crore, faucetware was INR 202 crore, wellness was INR 11 crore, and tiles was INR 51 crore. I'll repeat INR 273 crore, INR 202 crore, INR 11 crore and INR 51 crore.
- Jaspreet Arora:** Sure. And the trend that you gave the percentage up or down, that was for the full year, right, FY24, right?
- Vikas Kothari:** No, this is for the quarter.
- Jaspreet Arora:** No. Initially, what you gave wellness grew 10%, tiles minus 10%, faucets plus 10%, sanitaryware minus 2%.
- Vikas Kothari:** Yes, this is for the quarter.
- Jaspreet Arora:** Oh, this is for the quarter, I am sorry. Okay so, what is it for the full year, sir, could you give that as well for the last financial year?
- Deepak Chaudhary:** For the last financial year FY23 - 24, I'll just give you the again breakup in numbers in crore. Sanitaryware was INR 959 crore, faucetware was INR 671 crore, wellness was INR 37.54 crore, let's say INR 38 crore and tiles was INR 191 crore. I'll just give you the year-on-year growth also. Sanitaryware is negative 0.3%, more or less stable, faucetware is positive 9.8%, wellness is 21.1% growth and tiles is 0.8% growth.
- Jaspreet Arora:** Okay. Now the follow-up here, sir, is this muted ness in sanitaryware, I am talking about the full year now, I am not talking about the fourth quarter. I am saying largely the full year, this muted ness in sanitaryware and also in tiles, what are some of the reasons that you could ascribe this to?



**Vikas Kothari:**

So ideally speaking, in terms of the sanitaryware or in terms of the tiles, the question what you have raised in terms of the demand getting muted. So, as you know, as far as the financial year 2024 is concerned, it is impacted by subdued demand across all the regions. And in terms of the sanitaryware, if you see, since we are established in this segment for a larger period than faucetware, and the market size with respect to faucetware is quite big as compared to sanitaryware. So, some impact with respect to this slowness has contributed, and we are hopeful that financial year 2025, I think after these elections are over, we will be again resuming back in terms of the positivity in demand and then the things will improve better.

**Jaspreet Arora:**

Sure. I am actually just trying to get, see what we hear on the ground is and obviously, I am sure you're going to counter that by saying, the real estate activity seems to be very, very high, very active, very buoyant, right? And obviously the following demand will be realized later, but this activity was strong in '23. It's not that FY24 is less strong than FY23. Parallely, the GDP at 7.5-plus percent, IPA is at 6%. So, GDP will not grow like drastically next year for the, so I am just trying to understand on ground why demand impacted, why is demand flat. I am sure our market share loss not there. If at all, you would have gained market share. But on-ground, what are some of the reasons because the demand is so lackluster, which is like 0%, assuming you have a market share net gain only and not a loss?

**Vikas Kothari:**

So, when we are talking about the real estate upswing, so definitely, there is a real estate upswing. But as far as our products are concerned, sanitaryware and faucetware, generally means these products, if you see, they are installed at last stage of the project. And we see that in the last year, there are projects which are near to completion, and we have a good project bank right now available. So definitely, it's a phasing impact which is there. So, this real estate upswing will provide us sort of the projects and other things, and that will be encashed in this financial year.

**Jaspreet Arora:**

Okay. I mean the real estate activity was equally strong in FY 22 - 23. I am just not very clear why is this is. Anyway, so I mean, still not very clear on what's exactly leading to this lackluster demand. This year, we are confident that beyond Q1, I understand Q1 will not be great, but I'm still not very clear but happy to hear you talk later on in the call. Thank you.

**Moderator:**

The next question is from the line of Praveen Sahay from Prabhudas Lilladher.

**Praveen Sahay:**

The first question is related to the sanitaryware. In the last call, you have said that the average price increase in the sanitaryware taken off 2% and effective from February 2024, so is that taken? And after that, the 2% of degrowth in the sanitaryware you had observed in Q4?

**Vikas Kothari:**

Yes. So as far as this sanitaryware is in terms of the price rise if you see, means we have not taken any price rise in the past 20 months. The recent price rise, which was taken in February 2024 was 2% in sanitaryware segment to offset the impact



of the increased input costs. So ideally speaking, the price rise has been taken, but it is just to offset this impact.

**Praveen Sahay:** Okay. Second question is related to the cost saving program you had said, which has delivered the improvement in the margin apart from your cut in the publishing expenses. So, is that continue in the nature, like the way forward, you will see such kind of a margin profile to continue in the FY25? Maybe comment on that.

**Vikas Kothari:** So, like you see as far as the margin stories are concerned. So, in this particular quarter, if you see the margins have performed or we have sustained and improved the margins. So ideally speaking, the margins will be sustained and as the demand conditions improve, definitely, the margins will also improve.

**Praveen Sahay:** Okay. And last sir, on the number. Can you give the gas prices for the quarter?

**Vikas Kothari:** Yes. So, in terms of the gas prices means gas prices remain favorable during the quarter. So, the average gas price from GAIL was INR 28.35 per cubic meter in Q4 FY24, which was INR 35.67 per cubic meter in the last year's quarter. The average gas price from SGL, Sabarmati Gas was INR 50.12 per cubic meter in Q4FY24 as against INR 57.40 per cubic meter in Q4FY23. And this positive trail of lower price is further supported by the increase of gas from GAIL, reaching to 80% in Q4FY24. So traditionally, we were having 50-50 ratio. So, in this year, if you see the drawl from GAIL has improved. And in this particular quarter, 80% of the gas is drawn from GAIL and 20% from Sabarmati. And the weighted average cost of gas in Q4, considering both GAIL and Sabarmati was INR 32.63 per cubic meter as opposed to INR 43.23 per cubic meter in Q4FY23, which is, I would say, significantly lower than the industry average.

**Moderator:** The next question is from the line of Lakshminarayanan from Tunga Investments.

**Lakshminarayanan:** So my question is related to the sales. So, I think we have around 6,000 touch points at which we sell. How this has actually moved in the last 1 year. What is any changes you made in your distributor reach as well as the dealer reach? I mean I just want to understand that. And within that, how much is overlapping between sanitaryware and faucetware?

**Vikas Kothari:** So, regarding the distribution networking, if we see, we are having a base of around 6,200 dealers. And this networks, if you see in terms of the growth versus the previous year, so previous year, we were having around 5,400 dealers were there. So, there is a growth of around 800 dealers. And of these if you see the base of the retailers also because our distribution network is largely through dealers. And since we have introduced this loyalty program for the retailers, so from there, we are counting the numbers also. This is the invoice uploaded to the system. So, our retailers base has also improved, which was around 14,500, in March 2023, and it is now increased to 19,300.

- Lakshminarayanan:** Okay. And you are tracking sales at the dealer to retailer level? Or you are also tracking sales at the dealer level?
- Deepak Chaudhary:** Our sales tracking is only to the dealers. It is only through the Retailer Loyalty Program where we have started asking for invoices to be uploaded onto their applications that we start getting to know what kind of numbers of retailers are there and also what pace that they have done. But per se, we don't have a direct relationship with the retailers. We are mostly selling to the dealers.
- Lakshminarayanan:** And what is the mix between, I mean how much is the overlapping between faucetware and sanitaryware?
- Deepak Chaudhary:** I think most of our dealers are common. Sanitaryware dealers would be selling faucetware and faucetware like vice versa. We don't have separate for sanitaryware and faucetware. Tiles, you'll find there are a separate dealers exclusively who are dealing in tiles, but sanitaryware and faucetware are mostly common.
- Moderator:** We'll take the next question from the line of Achal Lohade from JM Financial.
- Achal Lohade:** Sir, just a little clarity on this. You said the distribution, if you look at the dealer or the retailer touch points have increased meaningfully yet our growth is weak. How do we explain this? Is there a market share loss in certain pockets and gain in certain pockets, which is offsetting? How do we explain this despite such a significant increase in distribution touch points, the sales didn't see much increase, I am saying from the full year perspective. The growth excluding tiles is just 4%.
- Deepak Chaudhary:** The dealer distribution network increase, that is a continuous process. Like as a Company, we are always in the process of enrolling new dealers so that we can reach out to newer areas and areas which were not covered earlier. But the demand sluggishness, which has been there in the industry, if the macroeconomic factors are such that they are not supporting and there is a certain amount of demand which is prevailing in the market. The reach outlook that we are doing, the kind of reach that we are able to create, right now, we're not able to see results because the demand was slow. But as we go forward and the demand improves with the kind of increased reach, you'll find that the benefits that we have of the reach that we have created right now will be coming in once the improvement in demand happens.
- Achal Lohade:** Okay. Understood. The second question I have is with respect to the market size, if you could help us understand, I know it's hard to quantify, but just a ballpark in terms of what is the market size of sanitary and faucet for the full year FY24? And what kind of decline or increase you would have seen for the full year at the industry level? Just a ballpark number would also help.
- Vikas Kothari:** So, like you rightly told, it is difficult in terms as such, there is no establishment in terms of the figures. But our understanding, which is on a very global basis. So sanitaryware, we see the market size between organized and unorganized is around

INR 9,000 crore to INR 10,000 crore. And faucetware being a larger market, between organized and unorganized, it is around INR 14,000 crore.

And now your second question with respect to the market share and all. So ideally speaking, as far as Cera is concerned, and where our presence is across all the segments. And like the last year and especially from the second half year, the things with respect to the prevailing market conditions and the demand were a little bit sluggish and which is felt across the industry. So those points are there. So ideally speaking, in terms of the short-term fluctuations, which are there, I don't think that there is going to be a loss of market share as the things will improve or the conditions will improve, definitely, in terms of the revenue and the margins, the scenarios will change.

**Achal Lohade:** Understood. Just one clarification with respect to the premium mix. Currently, you said it is about 45%, if I am not wrong, sir? Aggregate for the quarter, 45%?

**Vikas Kothari:** Yes. So..

**Achal Lohade:** Premium is 24% is for the quarter.

**Vikas Kothari:** So, I will just give you the split between this entry, mid and premium. So, the entry, I am just giving the figures with respect to Q4FY24. Entry is 24%, mid is 35% and premium is 41%.

**Achal Lohade:** Okay. Because Q3, I see entry level is 43%, mid is 34% and premium is 23%. There is a significant change. Is that so sir?

**Vikas Kothari:** No. So even if you see the corresponding previous year quarter, the entry was 26%, the mid was 31%, and the premium was 43%.

**Achal Lohade:** And for the full year if you could give the premium number, sir.

**Vikas Kothari:** And for the full year, it is for the FY24, entry is 24%, mid is 33% and premium is 43%. Vis-a-vis, the last year, last FY23, that is entry is 27%, mid is 30% and premium was 43%. Is that okay?

**Moderator:** The next question is from the line of Udit from Yes Securities.

**Udit Gajiwala:** Sir, firstly, on gross margin, if you could elaborate, I mean, even despite the price hike, we had to do some volume push. So, the margins have definitely come down. So, could you just directionally give us what was the change in ASP or something that has come up because the margins are drastically down?

**Vikas Kothari:** So, I think the elaborative explanation I have given during the opening remarks, which I have read. But again, since you have raised this question, I just want to clarify you. So historically, our gross margins remain between 52% to 53% or 54%. This time, the gross margin as compared to the previous Q4FY23, we saw a decline of 3%. So, this decline is largely, like I explained, is on account of the higher

discounts being offered. And this is mainly the prevailing market conditions to address the prevailing market conditions. So that was there. But however, this decline is largely offset by the other savings or the other initiatives, what we have taken so that it is reflecting overall in terms of the EBITDA, it is showing a growth of 1.2%.

**Udit Gajiwala:** Right, sir. And secondly, sir, what will be your budgeted spend for advertisement for the coming fiscal given that you see headwinds to continue?

**Vikas Kothari:** So as far as you see the trend of the publicity spends are concerned, so means in the last year, we landed at around INR 63 crore. Prior to that, it was INR 57 crore. So more or less, our spend budgeted for this financial year will be around INR 63 crore to INR 65 crore..

**Moderator:** The next question is from the line of Dhananjai Bagrodia from ASK Investment Managers.

**Dhananjai Bagrodia:** Just few couple of questions. Are we seeing maybe some of our competitors who now are entering into the space with offerings of going to builders with pipes and sanitaryware and faucetware, are they having any competition pressure towards us?

**Vikas Kothari:** Can you repeat your question, it was not clear.

**Dhananjai Bagrodia:** Some of our competitors now have entered who were earlier in pipes, now they've entered into sanitaryware, faucetware and they are directly approaching builders and giving them the full offering of behind the wall to front of the wall. Are we seeing any of that competition phase up when we speak to builders or any of the dealers directly.

**Deepak Chaudhary:** Your question is in respect to like the competition, which has entered from pipe and other areas into faucetware. You can just again repeat your question, like what are you really asking.

**Dhananjai Bagrodia:** So how are they doing? Are we seeing in terms of competition on how they have been doing?

**Deepak Chaudhary:** No. We are of the sense that they have been having a very difficult time because what they are doing is, they're mostly trying to, they have not yet set up a factory. Most of them do not have a manufacturing facility. They are trying to source from the outsourcing partners, and they don't have the kind of depth and the range of SKUs that we have been able to offer and also the kind of dealer network that they have is extremely limited and very different from the kind which is required in the sanitaryware industry. So as such, we do not feel that they would be posing a major challenge. We are confident that within our space we are more concerned with the traditional players other than the new players who had entered the industry.

**Moderator:** The next question is from the line of Jenish Karia from Antique Stock Broking.

- Jenish Karia:** First question is with regards to your opening remarks where you mentioned that you'll be rejuvenating the Senator brand and you also launched the Luster series of products and will be launching a dedicated brand stores for that phase. So, can you give some color on how does the tier-wise breakup of these brands are, where do we see the margins for these brands going forward? And what would be the revenue contribution from these specific brands in the next 3 to 5 years?
- Deepak Chaudhary:** The Luster was launched last year and the Senator has been there for roughly like 4 to 5 years now. As we said that we have been trying to concentrate on these particular brands. And number would be difficult to give right now because we have been, we are now just trying to focus on this particular category, the luxury segment. The reason is that we see that till now, the kind of focus which is required for this particular segment was not there. But now with the kind of growth which has been there in the luxury segment in the projects, which have been coming up in the luxury space. We are intended to concentrate on this area. So, the target would be that let's say, by the time that we are reaching 2,900, these brands should be contributing at least, let's say, 8% to 10% of our total turnover.
- Jenish Karia:** Okay. And what will be the average realizations for this? Like how much premium would it be to Cera brand? Just trying to calculate how much of the value addition can be in the next 3 to 5 years?
- Deepak Chaudhary:** See again, the kind of premium which will be there for luxury brands vis-a-vis the Cera premium brands would be quite higher. It will be something like 60% to 70%.
- Jenish Karia:** Okay, great. Sir, second question is with regards to your upcoming price hikes. So earlier, we used to take 2 price hikes each year. So, are we moving to that strategy from this year, or we plan to postpone into the next year considering the challenging demand scenario? And secondly, can you give some flavor on the EBITDA margin breakup for each of the segments for FY24? That would be all.
- Deepak Chaudhary:** See, the kind of price hikes that we are going to take will depend upon the market conditions and also the way that the competitors have reactions. Normally, we have been more of a price leader in the segment, like we have been trying to take our own call with respect to what is environment, how much of price hike to take. But the current market scenario is such that price hike as of now is offering limited opportunities to take a price hike. So that will depend upon how the market situation changes in the future. So, we'd not like to comment on right now whether it will be 2 or 3 to something, it's going to be planned. It will depend upon the way that the situation changes. If the demand situation improves, and we feel that the price rise is possible, will take a price hike. But instead, what we have been doing is we have been concentrating on the cost aspect more, try to optimize our cost so that our margins are protected. So that the same effect that would have come from by taking a price rise is achieved by going towards a better cost model.
- Jenish Karia:** Okay. And sir, on the margin front, any flavor on the segmental margins for the year and going forward?

- Vikas Kothari:** No. So as far as the segmental margins are concerned, we present the overall margin. So segmental margins are difficult in terms of establishment, but being the overall margin that has already been explained.
- Jenish Karia:** Okay. And going forward, any guidance on the margin?
- Vikas Kothari:** Going forward?
- Jenish Karia:** Any future guidance on the margin? Will it remain the same or there will be some.
- Vikas Kothari:** No. So, like I already told, means we are even in the tougher situations where we are right now, we have sustained our margins. And as the demand situations improve, definitely, the margins will also improve.
- Moderator:** The next question is from the line of Bhaskar Chaudhry from Entrust.
- Bhaskar Chaudhry:** So just a question on the cash levels. Currently, they are at almost in excess of 40% of the total assets on the balance sheet. You did announce a dividend for the year. But any thoughts on the broader level on the level of cash? And have you any plans for that?
- Vikas Kothari:** So as far as cash levels are concerned, we are having cash reserves of around INR 828 crore as on March 2024. And in terms of paying back to the shareholders, so this time, the Board has approved the dividend of INR 60 per share which is almost 32.6% of PAT. And as far as the projects which are going on, the capex programs, which are going on, they are completely funded through these internal accruals. And as and when the new scenarios will come, the utilizations will be taken care of.
- Moderator:** The next question is from the line of Bhargav Buddhadev from Ambit Asset Management.
- Bhargav Buddhadev:** Sir, if you look at the last 5-year CAGR for the Company, it's close to about 6%. So, when we are saying 16% revenue CAGR for the next 3 years, what are we assuming on the industry growth rate, are we likely to grow in line with the industry? Or are we assuming any market share gain?
- Vikas Kothari:** So ideally speaking, in terms of the revised guidance, what we have given regarding this 16% CAGR, which is there, so means the guidance is largely based on the current situation as well as the detailing what we have done in terms of estimating our 3-years operating plan. So ideally, the factors which are going to contribute to this growth of 16% will be led by volume, which may be around 10% to 13%. And there will be some benefit from mix also, which is going to be around 4% to 6%, and the price will play between 2% to 3%.
- Bhargav Buddhadev:** Okay. And sir, as we assume a recovery in volumes, is it fair to say that this additional great schemes that you've offered in FY '24, that will be pulled back and will come back to 50% to 53% gross margin range?

- Vikas Kothari:** Yes. So is, again, this is a seasonality, which is playing a role where you see the impact of gross margin being slightly lower as compared to the previous year or quarter. So again, like I told, we are quite hopeful in terms of the demand situations being getting improved after Q1. And definitely, the discounts and other offerings which are there because we are not taking any price rise. We are not giving any sort of other things. So, to meet out the situation, this is a seasonal impact, which is there. So that will be taken care of.
- Bhargav Buddhadev:** And lastly, sir, what is the capex for the next 2 years?
- Vikas Kothari:** So the capex for the next financial year or the routine capex is around INR 25.4 crore, and this is largely taking care of the routine plant and machinery replacements, enhancing our customer touch points and some IT-related and logistics developments.
- Bhargav Buddhadev:** And this greenfield is on top of it, the sanitaryware INR 150 crore.
- Deepak Chaudhary:** So greenfield is which is the routine capex, which I have discussed. As far as greenfield is concerned, so means a majority portion of the land, it is acquired by March 2024 and around 85% of the land is acquired and balance 20% is under due diligence, and we expect that it is going to be completed by July 2024. And then we will see in terms of the construction of the new plant facility at an appropriate point of time considering the market scenarios and the market dynamics, which is there. And we estimate that it will take around 18 months from the zero date.
- Moderator:** Ladies and gentlemen, this is the last question for today, which is from the line of Akash from UTI Mutual Funds.
- Akash Shah:** Just wanted to ask what is the capacity utilization in sanitaryware segment?
- Vikas Kothari:** In sanitaryware segment, the capacity utilization in Q4 was 82%.
- Akash Shah:** Okay. So in sanitaryware greenfield expansion, we had a plan of spending close to INR 120 crore to INR 130 crore. Out of that majority of land parcel we have already acquired. So, what would be the cost of that land? And would that be sitting in FY 24 capex?
- Vikas Kothari:** No. So as far as land is concerned, so it is costing around INR 25 crore out of this INR 130 crore.
- Akash Shah:** And that has not been spent yet. Is it?
- Vikas Kothari:** No, that is already spent.
- Akash Shah:** So that will be in FY24 cash flow statement, right?
- Vikas Kothari:** Correct.



- Akash Shah:** Okay. sure. And sir, just last question. So earlier, we used to generate close to 30% to 35% of the sales from project segment or, let's say, developer segment and the balance was from retail segment. So, sir, I mean, how is the on-ground situation? I know, I mean, demand is sluggish, but considering the 16% revenue CAGR guidance for next 3 years, I mean even if demand revives, I mean, historically, over last, let's say, around 10 years also, the growth in sanitaryware segment has not been close to 16%. So, any sort of rough reason why we are guiding for 16% revenue CAGR over the next 3 years?
- Vikas Kothari:** So ideally when you talk about the projects in retail, so more or less, it's a dynamic model. And if we see in terms of means when we say globally, it is 70:30 as far as Cera is concerned. But considering the current sluggish demand and other factors which are there. So, if we see in FY24, the ratio is 65:35 in projects. So that is one part. And secondly, answering your question with respect to the 16% CAGR, what we have estimated on a 3-years operating plan basis, so this is taking into consideration the split, what we understand is going to be there considering the real estate growth and the retail market improvements.
- Akash Shah:** Sure, sir. So basically, we are saying that even Tier 2, Tier 3 cities, demand will improve from the current level?
- Vikas Kothari:** Correct.
- Moderator:** As that was the last question for today. 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 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 to CDR India. Thank you once again for taking time to join the call. Thanks, and bye.
- Vikas Kothari:** Thank you.
- 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. Thank you.

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