



Cera Sanitaryware Limited

Q3 & 9MFY25 Earnings Conference Call Transcript

February 12, 2025

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY25 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 "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

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

Devrishi Singh: Good morning, everyone, and thank you for joining us on Cera Sanitaryware Limited's earnings conference call, for the third quarter and nine months of the financial year 2025. The earnings of this period were announced yesterday.

We have with us today, the management team comprising Mr. Vikas Kothari - CFO; and Mr. Deepak Chaudhary - VP, Finance and Investor Relations.

We will start with brief opening remarks from the management, following which we will open the call for Q&A. A quick disclaimer before we begin; - some of the statements made in today's conference call may be forward-looking in nature, and a detailed note in this regard is contained in the results documents, that have been shared with all of you earlier.

I would now turn the call over to 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 all to our earnings conference call. I will begin by sharing some updates on the operation and strategy, following which our CFO, – Mr. Vikas Kothari will run you through the key financial highlights.

In Q3 FY25, while we initially witnessed early signs of demand improvement, market conditions remained challenging as persistent headwinds continued to suppress growth. As a result, demand did not pick up as expected previously. Despite these headwinds, we achieved a 2.9% year-on-year growth, increasing revenue from Rs. 437 crore to Rs. 449 crore. EBITDA for the quarter stood at 71 crore, reflecting a 5.2% de-growth on a Y-on-Y basis.

Our Sanitaryware and Faucetware segments contributed 50% and 37% to our revenues, with the B2B segment gaining traction even as retail demand remains subdued. Our strong brand equity, diverse product portfolio, operational discipline, and inherent strengths help us navigate most of these macro-led demand challenges to a large extent, reducing the impact that would otherwise have been more significant.

CERA, – our flagship brand, continues to demonstrate resilience and is expected to sustain its growth trajectory in the long run. At the same time, we continue to take necessary initiatives to strengthen our presence in the growing luxury segment with Senator emerging as a new horizon, alongside, Cera Luxe. These brands cater to evolving consumer preferences with a diverse range of offerings, including Red Dot award-winning electronic toilets, designer art basins, colorful Sanitaryware and faucet fixtures, thermostatic diverters and high-performance showers and a comprehensive range of Wellness products such as OxySpa, and air and water massage bathtubs. Our product development efforts are progressing well and in Q3 FY25, we successfully developed 158 new SKUs in the Senator brand and launched 104 new SKUs under the CERA brand.

Alongside continuous innovation, we are expanding our exclusive store network and enhancing product displays. By the end of FY25, we aim to establish 20 to 25 exclusive Senator stores and thereafter we will establish another 50 stores in the following year, enabling scaling up to 75 stores by FY 26. In existing stores, we are ramping up displays with Luxe products set to be showcased in over 100 existing stores by the end of next year. Further, we are strengthening our tile offerings with a focus on high-end value-added products, including large 6x4 slabs.

While our expansion in the luxury segment will take some time to translate into significant results, we are confident that our strategic efforts will position us well to capitalize on its long-term growth potential of the segment.

The expansion of our Faucetware manufacturing capacity to 4 lakh units per month continues to yield positive results with utilization rates improving sequentially. We see strong replacement demand in this segment, which presents a significant growth opportunity.

While demand in the Sanitaryware segment has remained subdued in the recent months, we are confident that the growth trajectory will regain momentum as the overall market environment improves. The B2C segment has been sluggish but with evolving consumer preferences, urbanization trends, and the gradual recovery in real estate combined with regular cycles of renovation and upgradation, we expect demand to pick up over time.

The Union Budget announced on February 1, 2025, introduced several positive measures aimed at boosting consumer sentiment and discretionary spending. The reduction in income taxes rates are expected to enhance disposable income, thereby increasing homebuyers' affinity to spend and hence stimulating demand in the building materials industry. Additionally, the

allocation of Rs. 15,000 crore under the SWAMIH Fund to complete stalled housing projects is anticipated to accelerate the completion of over 1 lakh housing units, further supporting the real estate sector. These initiatives are expected to positively impact market demand for our products.

On the production front, our focus remains on optimizing production efficiency and balancing inventory. Faucetware capacity utilization stood at 91% while Sanitaryware capacity utilization was 90% during the quarter. These levels ensure that we are well-positioned to meet the anticipated demands in the future.

Our planned CAPEX for FY25 stands at Rs. 25 crore, with Rs. 15 crore already deployed during 9MFY25. These investments are directed towards manufacturing enhancement, retail experience improvements, and IT infrastructure advancements, all aimed at strengthening our operational efficiency and product quality.

Our advertising and marketing spend for the quarter stood at Rs. 14 crore as compared to Rs. 22 crore in Q3 FY24. The Company continues to reap the benefits of the sustained efforts it has undertaken in this area over the years. Our brand ambassador, Kiara Advani, along with our advertising tagline, "CERA, this is your space, play it your way" has played a key role in enhancing brand recall while targeted advertising across multiple platforms ensures widespread visibility. Additionally, we have increasingly liberalized social media platforms such as LinkedIn, Instagram, Facebook, and YouTube to reach niche audiences. Collaborations with social influences have further amplified our brand presence, driving deeper engagement and increasing visibility among younger, digitally savvy consumers.

The Retailer Loyalty Program remains a key initiative in strengthening our engagement with channel partners. As of Q3 FY25, we have enrolled 23,000 plus retailers with more than 4 lakh invoices recorded under the program. Retail sales linked to the program contributed to 42% of the total retail revenue, reinforcing a strong retailer engagement.

While demand in the B2C segment remains sluggish, the B2B segment continues to gain momentum, contributing 35% of the Q3 FY25 revenues. This shift underscores our ability to cater to institutional buyers, developers, and large-scale projects, reinforcing CERA's position as a preferred brand in the industry. Maintaining an optimal mix of B2C and B2B sales remains a priority, allowing us to enhance sales predictability while capitalizing on diverse market opportunities.

To summarize, Q3 FY25 continued to reflect the sluggish demand environment. However, as we are reaching the end of the fiscal year, we anticipate closing the year with lower single-digit growth only. Going forward, CERA is strategically positioned to capitalize on the anticipated recovery. Our diverse products portfolio, continuous introduction of new SKUs and extensive dealer networks enable us to meet evolving customer preferences effectively. With over 4 decades of industry expertise, a well-established brand, strong

management, a robust balance sheet, and disciplined financial practices, CERA remains committed to upholding strong corporate governance. Furthermore, our in-house manufacturing and R&D capabilities strengthen our competitive edge, ensuring we are well-equipped to navigate short-term challenges and create long-term value for all 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 2024. Thank you, and over to you, Mr. Vikas Kothari.

Vikas Kothari:

Thank you, Deepak. A very good morning to everyone. I will now provide a brief overview of the Company's financial performance for the quarter and nine months ended 31st December 24.

In Q3 FY25, revenue from operations stood at Rs. 449 crore as against Rs. 437 crore in Q3 FY24, registering an increase of 2.9%. EBITDA excluding other income in Q3 FY25 stood at Rs. 59 crore on the same lines as Q3 FY24. EBITDA margins excluding other income for the current quarter stood at 13.2% as against 13.6% in Q3 FY24, registering a marginal decrease of 40 basis points. This decline in margin was mainly on account of increased operating expenses, which is partially offset by favorable publicity spends.

Gas prices remained favorable during the quarter. The average gas price from GAIL was Rs. 28.29 per cubic meter in Q3 FY25 as opposed to Rs. 28.78 per cubic meter in Q3 FY24. The average gas price from Sabarmati which rose from Rs. 55.41 per cubic meter in Q3 FY25 from Rs. 47.56 per cubic meter in Q3 FY24. This positive trend is further supported by increased drawal of gas from GAIL reaching 81% in Q3 FY25. The weighted average cost of gas in Q3 FY25 was Rs. 33.53 per cubic meter, which is notably below the industry average. Gas cost constitutes 1.56% of our total revenue.

For the quarter under review, revenue contributions were as follows: - Sanitaryware at 50%, Faucetware at 37%, Tiles at 11% and Wellness at 2%. On a Y-o-Y basis, Faucetware revenue increased by 6%, Tiles by 5%, and Wellness increased by 24%, while Sanitaryware revenue marginally decreased by 0.3%. The Sanitaryware and Faucetware segments remained the cornerstone of our business and have contributed 87% of the total revenue.

In Q3 FY25, 44% of our sales were in premium category, 34% in mid category and 22% at entry-level category.

Profit after tax was Rs. 46 crore in Q3 FY25 as compared to Rs. 51 crore in Q3 FY24, registering a decrease of 9.9%. EPS for the quarter stood at Rs. 35.56 versus Rs. 39.12 in Q3 FY24.

In terms of the working capital management, inventory days increased from 79 days to 85 days, receivable days from 27 days to 33 days, and payable days decreased from 46 days to 42 days. Consequently, the net working capital increased from 60 days to 76 days in Q3 FY25.

Regarding the sales distribution, Tier-1 cities accounted for 35% of our total sales, Tier-2 cities - 21% and Tier-3 cities led with 44% of total sales.

For the 9 months ended 31st December 2025, the Company reported net revenue of Rs. 1,337 crore, registering an increase of 1% on Y-o-Y basis. EBITDA, excluding other income, was at Rs. 185 crore, a decrease from Rs. 202 crore in 9M FY24. Profit after tax stood at Rs. 161 crore with a slight decrease from Rs. 164 crore in 9M FY24. Overall, the Company maintained stable revenues and profit on Y-o-Y basis.

As on December 31st, 2024, our cash and cash equivalents stood at Rs. 662 crore, marking a decrease of Rs. 106 crore or 13.8% compared to the previous corresponding quarter. This reduction was mainly on account of buyback offering during the second quarter.

In conclusion, I would like to reiterate the Company's confidence in its ability to improve overall performance going forward. As the demand cycle strengthens, we are well positioned to capitalize on improving market trends. CERA remains committed to maintaining strong financial discipline, optimizing resource utilization, and further enhancing its financial performance in the coming quarters.

With this, I would now request the moderator to open the line 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 Archana Gude from IDBI Capital.

Archana Gude: I had two questions. Firstly, on the margin front, - this is a consecutive second quarter where the B2B segment has performed better for us compared to retail. Given the overall commentary from other companies as well, it doesn't seem like the recovery will happen sooner than expected. In this context, achieving a margin of 16% to 17% in the near term may be challenging. Your comments on this would be helpful, sir.

Vikas Kothari: So, Archana, regarding margins, as we have addressed many times in the past, despite challenging market conditions, the Company has maintained consistency in preserving margins.

If you see EBITDA without other income for the quarter, it is in line with what it was on a Y-o-Y basis, reflecting stability in earnings. The marginal decline, which is seen on an overall basis in maintaining 16%, is largely due to demand factors. So, we think that once demand improves, the margins will return to the estimated 16% to 17% range.

Archana Gude: Sure, but sir, any tentative guidelines you would like to give us, so maybe, you know, somewhere H2 of FY26, so we will be back to that kind of margin?

Vikas Kothari: Yes, so as far as our efforts are concerned, even if we are not seeing any substantial growth as far as revenue drive is concerned, but in terms of the

margins we are quite confident that we are going to achieve this 16% to 17% in the next one or two quarters.

Deepak Chaudhary: Archana, I would like to just mention one other thing apart from what Mr. Vikas said. A large portion of this drop in margin is coming on account of a little bit of extra discounts which is going on because of the sluggishness which is prevailing in the market. As soon as the market starts improving, you will find that we have kind of already toned down on the discounts, we have taken it like at a bottom level right now. We are not increasing discounts any further. But with the improvement in the sale, you will find that as soon as we start rolling back the discounts, those margins which had dropped by, let's say, we are at 13.5% right now, will again go back to that level, which was earlier, 16% to 17%.

Archana Gude: Sure, that was helpful. Sir, secondly, the price hike what we took in Q2, so were the challenges on getting it absorbed given that the demand is very sluggish and, you know, maybe was it that was a wrong timing by our end?

Vikas Kothari: So, regarding the price rise, what we have taken in the last quarter, mainly in case of Faucetware. So, the Faucetware, if you see the segment, it has consistently growing as reflected in our past performances in few quarters also. In this Q3 FY25, we recorded a Y-o-Y growth of 6%. But while this growth appears lower compared to the quarter 2 financial year where we have achieved roughly 20% growth in Faucetware, it is important here to note that the last quarter's performance was partially influenced by a price increase in process.

So, ahead of this price adjustment, dealers stocked up beyond their immediate requirement, which is roughly contributing an increase of 8 to 10% of additional sales in quarter 2. As a result, some of those excess stocks were liquidated in quarter 3, impacting growth figures. Despite all these, we still achieved a healthy growth of 6% on Y-o-Y basis, which reinforces the strength and demand for our Faucetware segment.

Deepak Chaudhary: And Archana like we had explained in the previous concall also, when we are taking the price increase, the primary reason for taking the price increase was a sharp movement in the brass prices which is a predominant constituent of the total cost of the Faucetware. It was an increase of something like 20% in the first 3-4 months. Then it stabilized, but still, it will be in the region of 8% to 10% over the March numbers. So, that price increase was kind of absolutely essential not only for us but for all the players in the industry if they want to maintain any kind of decent margins on the product.

Archana Gude: Okay. So, we seen flattish net sales in 9M FY25 on a Y-o-Y basis, given the situation. Are we still sticking with to a high single-digit sales growth for the full year of FY25?

Deepak Chaudhary: No, we will not be ending FY25 with high single-digit growth. It will be more in the range of lower single-digit growth.

- Archana Gude:** And sir, how has January and the first half of February been for us?
- Deepak Chaudhary:** January and February so far have been better compared to last year on a year-on-year basis. But still, we do not anticipate achieving high single-digit growth as projected earlier. It will be more in the lines of lower single-digits.
- Archana Gude:** Okay, thank you so much, sir, and all the best.
- Moderator:** The next question is from the line of Mithun Aswath from Kivah Advisors.
- Mithun Aswath:** Just wanted to understand - when we listen to companies in the paint sector, they indicate that demand has bottomed out, and they are seeing some green shoots in January and February, possibly even starting in December. Are you observing similar trends? Do you see that demand has bottomed out and signs of demand picking up on the consumer side, or is it too early to say that demand is starting to improve?
- Vikas Kothari:** So, your question is forward-looking. As far as demand in the building materials industry is concerned, we do not yet see clear indications that the bottom has been reached, as challenges in the retail segment persist.
- While there is an increase in project orders, sluggishness in the retail market continues to impact overall demand. However, with the recent budget announcements and the RBI's relaxation in interest rates, we expect some improvement in spending, which had been on hold for some time. That said, the next one or two quarters may still be challenging.
- Mithun Aswath:** Right. And it has been a couple of years of stagnant growth. Looking at historical trends, post-COVID, there was a significant demand surge across the building materials sector, followed by two to three years of sluggishness. Do you see this as a typically cycle? And is rural demand currently performing better than urban demand?
- Deepak Chaudhary:** You are correct – there was a boom just after COVID, but sluggishness set in around Q3 of FY23-24, and it has continued for the last 4-5 quarters. As Mr. Vikas mentioned, there are some green shoots in the project segment, and with the budget announcements and interest rate reductions, we expect improvement on the retail side as well. However, it is difficult to make a firm prediction until we see actual improvements on the ground. We will have a clearer view after Q4 and will be in a better position to provide insights in our next concall.
- Mithun Aswath:** One last question on expansion. You had identified land for a new facility, but given the current demand conditions, would you consider postponing it? Given our healthy balance sheet, do you think it makes sense for us to be ahead of the market and expand? Also, have you been able to gain market share against the competition in this sluggish market?
- Vikas Kothari:** Regarding the greenfield project, as we have already mentioned in our Q2 concall, the land acquisition is complete. Once initiated, the project will take

roughly 18 months from the zero date. However, given the market uncertainties, we do not expect expansion to begin in the current financial year. Looking to the market instability, we will revisit this decision at the end of the financial year.

Now, coming to your question with regards to that in future if there is going to be any sort of good demand and the present time could be a better opportunity to get the plant constructed. So, we have the mitigating plans already built up, so, which can be catered through three arms.

One is the inventory base which we have built-up can suffice the requirement in terms of shoot-up of demand.

Second is the capacity utilization. So, currently, we are smartly managing our production and inventory, and basis that we are not utilizing our plant capacities fully, so that they can reach out to the fullest level.

And thirdly, we have a very flexible outsourcing model which can support in terms of whenever there is unexpected demand spikes.

These measures ensure that we can meet demand efficiently without committing to new capacity at this stage. But bringing the plant at this point of time, we will address this thing once we end this financial year. And then we will take a suitable decision in terms of the operating plans what we are going to prepare for the next financial year and how we see and drive the growth in the next coming two years.

On market share, all the tier-companies are delivering similar, more or less they are all facing the demand pressure and the numbers are not good. So, the market itself has shrunk. So, I don't think there is a question of any sort of decline in market share or something which has gone out of from one sector to another sector. So, this is a short term whatever the influence which is going on across the industry is the pain has been taken by all of us, and we are quite hopeful that with this real estate business where the project banks have increased, in our case it has increased by 15% if we compare with March, and their conversions will soon start from the next financial year. So, things will be getting back to normal, but the retail market which we see that is still it is sluggish. Still there are a few initiatives which are taken by the Government and the RBI, so we are hopeful that they will be converting into the demand scenarios being picked up.

Moderator: The next question is from the line of Praveen Sahay from PL Capital.

Praveen Sahay: So, the first question is related to your commentary. You mentioned that an extra discount was given, leading to some contraction in the margin. However, I can see that your gross margin has improved sequentially, while your operating margin has declined. So, is that an increase in operational expenses has led to the contraction in operating margin or by the discount?

Deepak Chaudhary: It's a mix of both. Discounts have increased, and at the same time, inflation has played a role, leading to a rise in other costs beyond the gross margin. So, both factors have contributed. However, on a year-on-year basis, our margins would have been higher had the discounts not been at their current levels.

Praveen Sahay: So, essentially, this discount has been in place for the last nine months, and that's why sequentially, the gross margin has not contracted?

Deepak Chaudhary: Correct. The increased discounts started from Q3 FY24 and have continued since then. But we have kind of bottomed out now, - the discounts are not increasing further.

Praveen Sahay: Okay. Could you also provide the nine-month price hike for Faucetware and Sanitaryware? And are you still maintaining your guidance of Rs. 29 billion by March 2025?

Vikas Kothari: Regarding the price hike, we have taken an average increase of 6% in Faucetware and 1% in Sanitaryware. While the year-on-year growth appears to be 6%, this is not entirely due to the price hike. A direct 6% price hike does not immediately translate into a 6% increase in average realization, as project orders often have pre-agreed pricing, and new rates apply only to fresh orders. The effective price realization in Q3 was approximately 2%, while the remaining 4% growth was volume-driven, indicating stable demand despite market conditions.

Praveen Sahay: And the guidance, - are you maintaining Rs. 29 billion?

Vikas Kothari: Regarding the guidance, so definitely this question needs to be answered. So, we are optimistic and committed in terms of meeting our projected target, what we have set i.e Rs. 2,900 crore by March 2027. This is supported by our strong project pipeline, and if retail growth improves, we are confident of meeting our growth targets. However, there is a caveat that this is contingent upon the market recovering as expected. We will provide a more detailed assessment at the end of the financial year when we have better visibility.

Praveen Sahay: Thank you, sir, all the best.

Moderator: The next question is from the line of Ritesh Shah from Investec.

Ritesh Shah: Sir, my first question is on the captive and outsourcing mix for Sanitaryware and Faucetware for Q3 and 9M FY25.

Deepak Chaudhary: For Q3, the mix for Sanitaryware was 58% outsourced and 42% manufactured in-house, while for Faucetware, 48% was outsourced and 52% was manufactured.

Ritesh Shah: And for the nine-month period?

Deepak Chaudhary: For 9M FY25, Sanitaryware was 57% outsourced and 43% manufactured, while Faucetware remained at 48% outsourced and 52% manufactured.

Ritesh Shah: Thanks for the data points. As a follow-up, given that land expansion has been completed and the zero-date commissioning is in 18 months, are we comfortable increasing the outsourcing share to 50%, 55%, or even 60% to meet our revenue target of Rs. 2,900 crore by March 2027? What is the management's comfort level in this regard?

Deepak Chaudhary: The way this functions is that our plant capacity utilization has fluctuated. Previously, we had reached up to 120% capacity utilization, but in recent quarters, we have operated at 80-85%, with Q3 at approximately 90%.

To keep the plant running efficiently, we have adjusted the mix. Earlier, we manufactured value-added and complex pieces in-house while outsourcing simpler products. However, as utilization declined, we brought some outsourced products in-house.

As demand picks up, we will first adjust this mix, - outsourcing those products again. Once we reach the optimal mix, we can scale capacity back up to earlier levels. Internally, at the right mix, we have scope to increase capacity by 50-60%, along with additional outsourcing flexibility. Given this, we see no challenge in meeting demand over the next couple of years with our current capacity in both Sanitaryware and Faucetware.

Ritesh Shah: Understood. My next question is on working capital deterioration. Could you explain the changes in each line item and the reasons behind them?

Deepak Chaudhary: As Mr. Vikas Kothari mentioned in his remarks, total working capital days increased by 16 days - from 60 to 76 days. Inventory days increased from 79 in Q3 FY24 to 85 in the current quarter. This is due to balancing plant utilization with demand. Since demand hasn't picked up as expected, we have maintained production levels, resulting in higher inventory. However, this can be liquidated once demand improves.

Receivable days increased from 27 to 33, primarily due to a change in our cash discount (CD) policy this quarter, reducing CD sales from 76% to 70%. While this increased receivables, it also reduced the cash discount we were passing on. We are reviewing this and may revert to the earlier policy if needed.

Payable days decreased from 46 to 42, as our vendor mix has shifted toward MSME suppliers, requiring payments within 45 days as per regulations.

Moderator: The next question is from the line of Resha Mehta from GreenEdge Wealth.

Resha Mehta: On the demand front, you mentioned that the project segment is performing better than retail. For 9M FY25, could you quantify the growth in Sanitaryware and Faucetware across projects and retail?

Vikas Kothari: Currently, retail accounts for 65-66%, while projects contribute 34-35%. This ratio is similar for both Sanitaryware and Faucetware.

- Resha Mehta:** Okay. And this share has remained similar year-on-year, or would that have got skewed towards...
- Vikas Kothari:** On a nine-month basis, the project segment has grown. For 9M FY25, retail contributed 62%, projects 37%, and exports 1%. In Q3 FY25, the split was around 65:35. Compared to historical levels of 70:30, projects have increased by about 2% year-on-year.
- Deepak Chaudhary:** Looking at a longer trend, our historical retail-to-project ratio was typically 70:30, which has now moved to 65:35, or even 63:37 on a nine-month basis.
- Vikas Kothari:** 35 to 37, correct.
- Resha Mehta:** Right, but for a nine month, it's 32, right?
- Deepak Chaudhary:** 37.
- Resha Mehta:** 37, sorry, Okay. The other one was, you know, your two brands Luxe and Senator. So, what would be the revenue salience of these two brands currently in our portfolio and the margins? And also, when we look at, you know, ad spends, since now, you know, we have three brands, right? And the luxury brands, the premium brands are also focused. How do we decide, you know, to spend between these three brands?
- Deepak Chaudhary:** Luxe and Senator are still in the early stages of launch, so their revenue contribution is currently limited. However, over the next two to three years, we expect these brands to contribute about 10% of our total revenue. Based on our Rs. 2,900 crore revenue target for March 2027, Luxe and Senator should generate Rs. 290-300 crore by then.
- Senator is set to launch soon, with 20-25 exclusive stores expected by April. These will be at premium locations, offering a distinct retail experience separate from the existing CERA stores. For Luxe, we aim to have 100 stores by FY26, mainly through upgrades of existing displays.
- Margin-wise, both Luxe and Senator will have significantly higher margins than the core CERA portfolio. However, as pricing and positioning are still being refined, it will take some time before we can provide concrete margin figures.
- Moderator:** The next question is from the line of Udit from YES Securities.
- Udit Gajwal:** Just wanted your comments on the increasing competition, as we've seen new catalogs coming in from large conglomerates in the bathware segment. How do you see this competition playing out? And could it impact your margins going forward, considering it might turn into a volume-driven market over the next few years?
- Deepak Chaudhary:** We've seen these conglomerates enter the market before, - paint companies, pipe manufacturers, and tile companies have all ventured into this space. However, they have struggled to replicate their success in Sanitaryware and

Faucetware. Typically, they reach a revenue mark of Rs. 40-50 crore but find it difficult to achieve the margins and growth they anticipated.

This industry is tough to crack, and we don't see new entrants posing a major challenge. Our focus remains more on existing players and the current demand environment rather than new competitors entering the market.

Udit Gajwal: Okay, sir. On a related note, regarding the price hikes taken over the first nine months, how do they compare with those of your peers?

Deepak Chaudhary: In Faucetware, most players have taken similar price hikes, except for one competitor who didn't raise prices. In Sanitaryware, while we implemented only a 1% price increase, our competitors raised prices by 4-5%. However, given the current market conditions, much of these price hikes are being offset through discounts.

Udit Gajwal: Understood, sir. Thank you, sir.

Moderator: The next question is from the line of Samyak Jain from Marcellus Investment Managers.

Samyak Jain: You mentioned that stock levels have increased to maintain minimum plant utilization. If the weak demand scenario persists for another 6-9 months, will you continue with this strategy, or will you adjust stock levels based on demand?

Deepak Chaudhary: I'll break this into two parts, - Faucetware and Sanitaryware. For Faucetware, adjusting plant utilization is relatively easy since the process is machine-driven, and most of the labor is on a piece-rate or contractual basis. The proportion of fixed costs in the Faucetware facility is also low. Therefore, we don't foresee significant inventory buildup in this segment.

However, in Sanitaryware, scaling down production is more challenging. Skilled labor, particularly in processes like casting, is hard to find. Even if we wish to reduce production, letting go of skilled workers isn't feasible. That's why we've shifted some outsourced products to in-house manufacturing to maintain a balanced production level.

That said, if weak demand continues for a prolonged period, we will reassess inventory and utilization levels accordingly. But this challenge is more relevant to Sanitaryware than Faucetware.

Samyak Jain: Got it, sir. Thank you very much.

Moderator: The next question is from the line of Akshay Chheda from Canara Robeco Mutual Fund.

Akshay Chheda: On demand, we've shifted our mix from 70:30 to 65:35, with B2B growing. Even within the 65% retail share, we serve B2B clients via retailers. So, if 70% of our

demand is from new construction and 30% from replacements, why is retail softness affecting us so much? Shouldn't B2B within retail provide some stability? Also, has competition from incumbents, Morbi players, or MNCs intensified, impacting us?

Deepak Chaudhary: I will address the second part first. Like again, as I mentioned earlier, it is not so much about competition intensity. Of course, they are coming at the fringes and taking away small, small numbers, which would have otherwise maybe come to us or the unorganized sector. But it is not so much the competition from the new incumbents, but more about the demand situation which is playing out right now.

To address your question that the bulk of the demand comes in from the new construction. So, we have kind of found that the new construction portion, even for the like, apart from the metros, for the second and third Tier-towns, the construction activity has also slowed down, which is kind of affecting our demand over there also.

So, post this budget, we are hopeful that the spending should be increasing over there, and we should see an uptick, but we will have to wait for a couple of quarters to see whether it actually translates.

Akshay Chheda: Okay, sir. Thank you.

Moderator: The next question is from the line of Omkar Ghongade from Shree Investments.

Omkar Ghongade: In this tough environment, how are you expanding your retail footprint to tap into untapped markets?

Deepak Chaudhary: Given the external challenges, we focus on optimizing costs within the Company. As I mentioned earlier, the discounts we are offering have bottomed out. We are taking several measures to reduce costs. For example, we are addressing logistics, which account for about 9% to 10% of our total costs, and exploring ways to reduce those costs. We are also focusing on reducing labor costs. Previously, most of our labor costs were fixed. Now, we are shifting toward a more variable labor cost structure, allowing us to scale back on production and reduce labor costs when necessary.

Additionally, we have been working on reducing insurance costs, which total around Rs. 16-17 crore annually. We have already made significant cuts and aim to reduce them further. We also continue to benefit from our gas supply from GAIL, which is less impacted by market price fluctuations.

The primary strategy is to keep focusing on internal improvements while the external environment remains tough. We've identified weaker markets, such as the East and Tamil Nadu, where we are not performing well. During this challenging period, we are focused on strengthening these areas.

While external market conditions improve, our efforts will continue on cost optimization and addressing our weaknesses. We are also seriously pursuing

the premium segment through Senator and Luxe, with the goal of these segments contributing 10% of our total revenue by 2027. The focus is on internal efforts until the external market conditions improve.

I came across a phrase recently: "Success is the sum of small efforts repeated day in and day out." So, we will continue making small improvements until the market improves, positioning ourselves to capitalize on those improvements when the market turns favorable.

Omkar Ghongade: Thanks for the detailed answer. Another question, - how are you adding to the retail network? What's the strategy, and to what extent do you plan to grow?

Deepak Chaudhary: For our retail network, our annual target is to add 300 to 350 display centers. These display centers are typically part of dealers' showrooms. Vikasji, do we have the latest numbers for the retail rooms, including the current quarter?

Vikas Kothari: I'll provide the numbers. As of December, we have around 1,682 display centers, categorized by store size. This includes 218 CERA Style Galleries, 191 CERA Style Hubs, and approximately 1,273 smaller CERA Style Centers.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

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 you like to know more about the Company, please feel to reach out to me or CDR India. Thank you once again for taking the time to join the call.

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.

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