

Pokarna Limited

February, 12, 2019

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Dear Sir,

Sub: Transcripts of the Conference call.

BSE Scrip code / NSE Symbol: 532486 / POKARNA

We refer to above and hereby submit the transcripts of Q3 & FY19 Earnings Conference Call, conducted on February, 04, 2019.

This is for your information and dissemination.

For Pokarna Limited



Mahesh Inani
Company Secretary



Pokarna Limited

Q3 & 9M FY19 Earnings Conference Call Transcript

February 4, 2019

Moderator

Ladies and gentlemen, good day and welcome to the Pokarna Limited Q3 and nine months FY19 earnings conference call.. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you Sir.

Gavin Desa

Thank you, good day everyone and a warm welcome to Pokarna Limited's Q3 and nine months FY19 earnings call. We have with us today Mr Gautam Chand Jain – Chairman and Managing Director and Mr Paras Kumar Jain – Chief Operating Officer of Pokarna Engineered Stone Limited.

We will begin this call with opening remarks from the management, following which we will have the floor open for an interactive Q&A session. Before we begin, I would like to point out that certain statements made in today's discussion maybe forward looking in nature and a note to this effect was stated in the conference call invite sent to you earlier. We trust you have had a chance to go through the communication from the results.

I would now like to invite Mr Paras Kumar Jain to make his opening remarks. Over to you, Paras.

Paras Kumar Jain

Thanks Gavin, good afternoon everyone and thank you for joining us today. Q3 of FY19 was another good quarter for Pokarna as our quartz business continued to execute and build upon the momentum, we reported last quarter. I will start with the summary of our third quarter results. We delivered strong consolidated quarterly revenues and record profits in the third quarter.

Revenues were Rs. 120 crore, an increase of 36% compared to Rs. 88 crore of third quarter revenue of FY 2018 with growth primarily coming from our quartz business. EBITDA was a record Rs. 43 crore or 36% of our revenues compared to Rs. 30 crore or 34% revenues of third quarter of FY 2018. EBITDA percentage increased with impact of higher material cost, more than offset by the benefit of higher volumes, favorable currency and improved pricing. Interest outflow for the quarter stood at Rs. 6.3 crore as against Rs. 7.68 crore reported during Q3 of



FY18, lower by 18%. PAT for the quarter grew at 87% and stood at Rs. 27 crore as against Rs. 15 crore reported during Q3 of FY18.

Now moving on to the individual businesses; granite business first. Operating environment in granite industry continues to be challenging, competitive intensity continues to affect the overall business and the realizations. This quarter's performance was aided to some extent by favorable FOREX movement. We believe that the growth in this segment is predominantly linked with the change in underlying macro environment.

Now I come to the quartz business: We are pleased with our quartz business results in the third quarter which demonstrates the continuing strength of our quartz business. In quartz business, our revenues were Rs. 84 crore in the quarter, an increase of 80% from third quarter revenues of FY18 which had a lower base and quartz business EBITDA in the quarter was Rs. 33 crore or 40% of our revenues, this compares to Rs. 20 crore or 42% of our revenue reported in the third quarter revenues of FY18. Higher volumes, favorable currency and improved pricing more than offset increased material cost. We are executing well and we are also continuing to expand our infrastructure to enhance our competitive edge.

As always, we continue to look for debottlenecking opportunities to increase throughput over in the quartz plant. Also, the setting up of our new quartz facility is progressing well as planned and we expect commissioning of operations in Q1 of calendar year 2020.

Today I also want to talk about our strategy overall as we navigate the challenge in the opportunities in quartz business:

For one, we are seeing some part of quartz business moving from China to India in the light of tariff and duties in US on Chinese quartz products.

Secondly, we are also seeing mushrooming of quartz manufacturers in India, predominantly using Chinese machineries and process to capitalize on their growth opportunities being thrown open by the tariff and duty situations coming out from the US. To compete effectively in this scenario, we will be deploying two-pronged strategy in medium-to long-term timeframe.

Firstly, we would step up our technological advancement and innovation in our product offering and throughput and we believe that, that is the way to take the game to a whole new level and this strategy would be backed up by an appropriate and timely upgrade in our facilities but in a smarter and more disciplined manner. In summary, we have delivered strong operating performance in the third quarter and we are excited about the progress we have made so far and we look forward to unlocking more shareholder values in the years ahead.

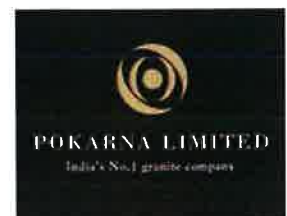
With that, we will now open the call to your questions.

Moderator

Thank you very much. We take the first question from the line of Shriram R from Sundaram Mutual Fund.



- Shriram R** Sir could you just give some indicative statistic about the capacity in India and how much more it is coming up because you just mentioned that people are putting up new plants?
- Paras Kumar Jain** See we do not effectively track what is the capacity which is coming up in India but we believe that with the tariff situation in the US on the Chinese products, there is going to be a good amount of capacity which would be coming up in India because probably some of the manufacturers within the country would also be putting up new lines and there could also be a movement of Chinese manufacturing facilities into India. So there would be some amount of competition and intensity in putting up the plant coming into India because these are not reported industry bulletins or where we can track the statistics of what is coming up but we believe that good amount of capacity at least on the paper would be getting added.
- Shriram R** And how much would be your's sir, the one which is going to get completed in FY20?
- Paras Kumar Jain** We have reported in the past that our new capacity would be about 130% of our existing capacity.
- Moderator** We take the next question Karthi Keyan VK from Suyash Advisors.
- Karthi Keyan VK** I had a continuation of the same question, so would the business development cycle be longer for these new players who would be setting up in India sir, how exactly do you see the situation evolving? How much time would it typically take to penetrate the US market assuming somebody starts all over again?
- Paras Kumar Jain** See, the business cycle typically starts anything between 1-2 years, that is the typical gestation and it also depends upon the complexity of the plant you are setting up and the other related factors of any new business.
- Karthi Keyan VK** Right, I mean in the past you have indicated that the typical economic sizes of these plants that you setup are fairly large in number which is why you have a fairly lumpy CAPEX cycle, would the Chinese technology similarly be somewhat lumpy or would these be much smaller in size and therefore the modular expansion can happen faster, some thoughts on that?
- Paras Kumar Jain** Yes, as with any industry which competes with China, China has various solutions to offer, so they have solutions which are very economical and also modular but again at the end of the day, everything is a function of what is the value you derive from that business and what is that you can offer to the customer.
- Karthi Keyan VK** Right, are there known facilities that are coming up, would you be able to say 5-7 players, would you know of any players who are already setting up facilities and so on, would you be able to?
- Paras Kumar Jain** We do not track the names but I can say that they will be in double digit numbers.
- Moderator** Next question is from the line of Kashyap Jhaveri from Emkay Global.
- Kashyap Jhaveri** Just wanted to understand on the Quartz side, in terms of our FX realization, have we realized benefits up to the full extent of about Rs. 71 odd a dollar?

Paras Kumar Jain It does not come to that level but we are fairly close to that level.

Kashyap Jhaveri So if I were to sort of reverse work, then would our quarterly or annualized revenues in Quartz business reached upto about \$ 40-45 million on annualized basis?

Paras Kumar Jain I would let that economics to be done at your end.

Kashyap Jhaveri But let us say in terms of constant currency or in term of volume, this top line growth from about Rs.45 crore to Rs.84 or Rs.73 crore in the previous quarter to Rs. 84 crore, the volume ramp up as well as dollar realization would also form a fair part of that and not only the currency, is that then the right assumption? I am not asking you specific numbers?

Paras Kumar Jain Yes, you are right it is a function of various aspects, it is a function of currency, it is a function of increased throughput, it is a function of increased realization.

Kashyap Jhaveri Okay and if I understand this correct, even dollar realizations have improved in last 12 months or so?

Paras Kumar Jain Yes, to some extent.

Kashyap Jhaveri And would you be able to disclose the utilization levels?

Paras Kumar Jain For confidentiality reason, I would not be able to answer that.

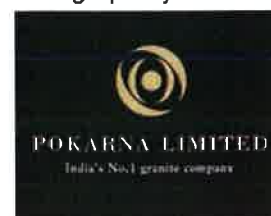
Moderator Next question is from the line of Pranav Mehta from Equirus Securities.

Pranav Mehta Congratulations on a good set of numbers. Sir just wanted to understand on one thing; your margins have jumped by significantly quarter on quarter. So what would be the stable EBITDA margins that we can work for quartz division as such? Will this continue or do you expect this to moderate going forward? That is why our first question, the second question is that is the Breton Stone tying up with any other player in India apart from you since your tie-up with them is finishing in 2020, so are you seeing any other players approaching Breton Stone?

Paras Kumar Jain Yes coming to the first question first, on the EBITDA margins I think historically we have maintained that 35% is the right number to look at and for various reasons we have been beating that number but from a guidance perspective, it will continue to stick on to that 35% number. And your second question on Breton tying up with the new players, I think Breton keeps up exploring their business opportunities and they would definitely be looking for partners apart from us.

Pranav Mehta Okay Sir, and another question was regarding this anti-dumping duty on China. So have you seen growth coming from, so for India it has been quite strong, so for other countries also the same kind of a competition you would be seeing in the US market because China as such was a very big part of the US quartz market, so do you think that competition from other countries will also ramp up significantly because of this Chinese threat subsidizing?

Paras Kumar Jain Yes, see basically Chinese will have to look for new manufacturing basis and depending upon the various factors which are essential for setting up any business,

they would be looking at the countries which are close proximately to China in terms of availability of resources and including the raw material and the skilled labors. So there will be definitely the new countries which will probably get added.

- Moderator** Next question is from the line of Pritesh Chheda from Lucky Investments.
- Pritesh Chheda** Sir, the dollar sales which are talking since last couple of quarters, is it sustainable considering the mix and the prices that you are getting?
- Paras Kumar Jain** At the moment, we believe so.
- Pritesh Chheda** **Sir, the** resin prices should be higher considering the crude prices in the last quarter so that tailwind of lower resin prices should fructify for you incrementally?
- Paras Kumar Jain** See I think the resin prices are not really now a function of crude oil because there are various other factors which are influencing because some of the chemicals are short in supply, so the complete impact of subsidization is not spreading into you know lower raise-in prices.
- Pritesh Chheda** But are you running on the higher raise-in prices than the normal?
- Paras Kumar Jain** Yes, currently the cost of raw material is very high.
- Pritesh Chheda** Okay and my last question is; what would be the cash flow from operations in the nine months after working capital?
- Paras Kumar Jain** I think you should wait for another 3 months, we will report the full year for you.
- Pritesh Chheda** What is the debt as on the balance sheet, as on December end?
- Gautam Chand Jain** Consolidated debt is Rs. 86 crore.
- Pritesh Chheda** what is the consolidated gross debt number including long-term and Short-term.
- Gautam Chand Jain** This includes the bank payable debts and also the promoters' loans. The promoters' loans is Rs. 93 crore now consolidated and Rs. 86 crore is the bank debt.
- Pritesh Chheda** So how much repayment have you done for the debt?
- Paras Kumar Jain** Yes, we repaid Rs. 21 crore in granite and Rs. 14 crore in quartz. So total about Rs. 35 crore per three quarters.
- Pritesh Chheda** So basically Rs. 86 crore plus Rs. 93 crore, is about Rs. 179 crore which was about Rs. 215 crore last year.
- Paras Kumar Jain** Yes, correct.
- Pritesh Chheda** And lastly what is the cash on the balance sheet?



- Paras Kumar Jain** See we report half yearly and yearly the balance sheet numbers, so let us wait for another three months on that.
- Pritesh Chheda** Okay but at least the dollar sales is a sustainable number.
- Paras Kumar Jain** That's the assumption we are working on.
- Pritesh Chheda** And the asset utilization is 100% or do you go for more asset utilizations?
- Paras Kumar Jain** There is always scope to improve so we are looking at the opportunities where we think that there can be some improvement but you know depending upon the product mix, sometimes the opportunities really do not get converted into the cash conversion and sometimes they get.
- Pritesh Chheda** The asset utilization higher is possible by virtue of more volumes or by virtue of better product mix?
- Gautam Chand Jain** It is always the product mix because as you know we have been always telling you that the whole game is on the product mix; it can be different colors, it can be different thicknesses.
- Moderator** We take the next question from the line of Pradeep Singhania from SageOne Investment.
- Pradeep Singhania** Sir my first question would be; of the total sales of quartz to invest, how much would be the slab sales and how much would be as per the customer's specification?
- Paras Kumar Jain** See that is a very highly trade secret information, so we will not be able to give you a breakup between the cut-to-size and the slab but what I can say you is that majority goes into the US market.
- Pradeep Singhania** Okay and sir like speaking to a lot of this upcoming quartz companies, what I get to know is lot of Chinese companies are giving them plant and machinery at a zero cost for the first line and they are just charging them for the second line, that means lot of tie-ups have happened in such a way and even speaking to many stockist, super stockists in Los Angeles, they are also of the view that we are open to source from many other players in India, so when this trade will shift from China to India and lot of these Chinese companies are saying that you manufacture 100% for us and then you sell via India, we will give you the technology and everything. So in that sense, like because of the realization of this Chinese companies and product would be quite lower than what you would be getting. So would not that have some adverse impact on the perception of the Indian quartz companies supplying to China and then your customer might come to you and say that average Indian companies are selling at this price and you are selling at xx price which is much higher and then they might ask you to reduce, any change in perception regarding this?
- Paras Kumar Jain** One thing you should remember that we have been competing with China from the day one, the fact that they came to India does not change anything for us because at the end of the day it is a business and it runs on certain principles of business, so even if the cost of machinery is zero for anyone, there is still a cost of raw




material and the company or the trades which are doing the deals at zero cost, I am not aware on privy to such things but I do not think that such situation typically puts us into a very new situation. We continue to face China; we faced China from China, now we will face China in India that is the only difference.

Pradeep Singhania Okay because lot of these quartz companies are just quoting at say around Rs. 50 per slab of say 10.5 x 5.25 at FOB in Mundra Rs. 50 or Rs. 45, that is how low they are quoting.

Gautam Chand Jain See first of all to understand that a Chinese is willing to supply the machine without the cost itself is a unbelievable offer, if everything is available free of cost, there will be not hundreds or thousands, there will be in, multiple thousands people will put the line if the machine is available free. And first of all, why will a Chinese sell a machine free and how can anybody sell a machine free, so

Pradeep Singhania Basically it is the agreement that first line would be free, second line they are charging in 100% production for Chinese.

Gautam Chand Jain Anyhow, they will load the price of the first line on the second line.

Pradeep Singhania Right.

Gautam Chand Jain You have to understand that, nothing is free in this world. If they give you free first line then they will put three times the margin on the third line and second line.

Paras Kumar Jain But I think that earlier, I do not subscribe to the views that the facing Chinese plant in India is different from facing Chinese plant from China. So we believe that situation remains the same, the perspective which we wanted to put was that you would see that there are some quartz companies mushrooming up in India at an incremental pace than in the past, that was the limited point which we wanted to mention.

Gautam Chand Jain I would even go to the extent of telling you something that if the Chinese were perfecting to make this product in whatever way, how will the Indians be able to perfect that art in such a fast time, first of all? Number 2, the Chinese labor cost and the machine cost both together, we are already facing them know, so how will it change? If at all it changes, it will be negative for the Chinese machines to work in India that is what I feel.

Pradeep Singhania And Sir, second part would be on the domestic business where how aggressive are we focusing on building the Quantra brand for the domestic market because most of the ceramics and tile stores who are stocking some quartz products, they all have like Kalinga or AGL products in quartz, do we focus on that building that domestic brand aggressively?

Gautam Chand Jain Right now our focus is still on exports, we will continue to focus on exports or let me put it the other way round; our focus will be for better realization of the price of the product. As long as better realization in export, our focus will continue to be in exports. The day domestic market matures to pay more than the export price; maybe we will look more aggressively on the domestic front.






- Moderator** The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.
- Nikhil Upadhyay** Congratulations on good set of numbers, Sir. Just two questions; one is on the CAPEX if you can just give us some more details, so is the ground work in terms of the shed and everything is ready and or when would we start getting the equipments for the installation and all?
- Paras Kumar Jain** Nikhil, in terms of breaking the ground and the construction; the construction is in full swing, in fact I do not know whether you missed my update what I gave briefly in my opening remarks, the progress is as planned and we expect the commissioning to be in Q1 of calendar year 2020.
- Nikhil Upadhyay** Okay and just one thing, this commissioning when we say it would be commercial or it will be post the trial run?
- Paras Kumar Jain** When we say commissioning, it is a combination of hot and cold run and it takes some time to stabilize also. So Q1 is when we will start doing these hot and cold runs and post that stabilization period will be achieved.
- Nikhil Upadhyay** And secondly Sir, when you said that there are many smaller Indian players who are getting the Chinese machines and putting the product in for the exports but are you seeing the product flowing into the Indian market also aggressively, so because earlier it was all, the product had to be imported and then sold into India from China and all. But now with the capacities coming, do you see the domestic market can also grow pretty strongly?
- Paras Kumar Jain** I think every manufacturer will look at an option to dispose whatever he produces, so whatever he is able to export he will export and whatever he is not able to export then he will have to find other revenues which includes Indian market also.
- Nikhil Upadhyay** Okay because if I try to understand the economics of some of the players who are already doing on Chinese, they are already making like something 30%, 35% kind of a margin on the product and the realizations are also strong, so that is why I was trying to understand that can this propel the growth of quartz in India as compared to what we had seen earlier?
- Paras Kumar Jain** It depends upon the maturity of the Indian consumer also, like whether are we willing to pay for a product upgrade? If Indian consumer is able to accept product at a higher price point, be it from Chinese or be it from any other Breton line, it would always flow into that market.
- Nikhil Upadhyay** And lastly with, if there are more manufacturing facilities coming based on Chinese machinery into India, do you see a scenario that this anti-dumping duty which was put on China, we could also be impacted because basically the exports will start happening from India now that is in China and which can have a negative rub-off on the industry in India?
- Paras Kumar Jain** See it is very difficult to do crystal gazing. So I cannot sit and predict what is going to happen in US or Indian thing. As a manufacturer, as a matured business, we have to handle the situations as are thrown open by the cycle. So, it is very difficult to do any crystal gazing on that.






Moderator The next question is from the line of Srinath V. from Bellwether Capital.

Srinath V. If you could just give me a flavor of how the IKEA relationship is moving forward, what kind of sales are we doing with them? I am told the first store has started recently, so could you just give me some flavor on that Sir?

Paras Kumar Jain The IKEA business is progressing well month on month basis, the business is yet to catch up to the expected levels but we are confident and we are committed to this business model.

Srinath V. And when you say, you are referring to the India sale or you know to other parts of Asia also?

Paras Kumar Jain See we currently are tied up with India only for IKEA.

Srinath V. Sir just for a modeling purpose, when do you think the debt from the new machinery will kind of fit the balance sheet, could you give us a very rough timeline on that?

Paras Kumar Jain The full CAPEX is going to be at least couple of years down the line.

Srinath V. Okay, no I thought by in another four quarters we will be getting into the dry run, so by the time we would have made a large part of the payment for the CAPEX or how would this kind of work from the payment schedule point of view?

Gautam Chand Jain Unfortunately, we have structured our financial tying up with for the machines differently, so you will have to wait to see them appear in the balance sheet.

Srinath V. Any update on the apparel business, Sir?

Gautam Chand Jain Nothing yet.

Moderator The next question is from the line of V P Rajesh from Banyan Capital.

V P Rajesh Just in terms of selling to the US market on the quartz side, what is the percentage when you split between domestic and the US or exports in general?

Paras Kumar Jain Over 98% goes into the US market, so rest of the world typically is negligible for us.

V P Rajesh So in terms of the quarterly revenue that you get, how much went to the US versus domestic?

Paras Kumar Jain That is what I precisely said that you can budget at least 98% of my revenue into the US market.

V P Rajesh Secondly in terms of the US market, you know we are hearing that the housing has slowed down over the years and I think the housing start numbers are also little bit on the lighter side there. So I was just wondering if that is the right macro indicator for our demand or we are also seeing a strong replacement cycle in the US as well?

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Paras Kumar Jain See the US industry has got two facets; one is the new housing, other is the renovation market both in the residential and the commercial segment. So our business is typically a function of both the cycles, of the new construction and also the renovation of residential and commercial.

V P Rajesh Right, and are you by any chance able to track you know whether it is going into the new size versus the replacement size or not possible?

Paras Kumar Jain Very difficult because see typically we do not service the last mile, so we do not know exactly what is happening but we keep tracking all the metrics and we track them closely.

V P Rajesh And then just coming back to the domestic side, as you were saying earlier that a lot of small players are mushrooming, so if you were to estimate the capacity that we are going to put up, how does it compares to the second line that you are planning to start next year?

Paras Kumar Jain It is very difficult to predict what is the exact amount of square meters or square foot which is going to get added but what I can say is that a good amount of capacity at least should get added from our nameplate capacity perspective.

Moderator Thank you. The next question is from the line of Naman Naval from India Nivesh. Please go ahead.

Naman Naval I just want to understand once the anti-dumping duties are removed from China and there will be a supply glut from China and India because new players are also mushrooming and existing players like yourself are adding good capacity, so how much impact on margin can we see at that point?

Paras Kumar Jain See the impact of tariffs and duties on Chinese quartz in US is already seen and set by various businesses both in India and the US and some part of our reporting is also a function of that. So it is very difficult to give an exact basis point on that.

Moderator Next question is from the line of Kashyap Jhaveri from Emkay Global.

Kashyap Jhaveri Can you just help us with the maintenance CAPEX for FY19 and FY20 and if you could segregate this between both the businesses?

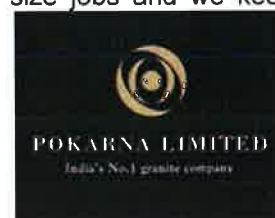
Paras Kumar Jain Unlike other businesses, these businesses do not typically have a large capital expenses on their upgrade or upkeep and typically we expense them also in the balance sheet. So I do not see that is a big number to look at.

Kashyap Jhaveri Because you know last two, three years if I look at your cash flow statement, there is about Rs. 25 crore to Rs. 30 crore-odd of CAPEX whereas there is no capacity expansion that we have done in last couple of years.

Paras Kumar Jain You are looking at the consolidated cash flow?

Kashyap Jhaveri Yes consolidated cash flow.

Gautam Chand Jain You know some new equipment we keep on adding, also apart from granite and quartz both, apart from making slabs we also do cut-to-size jobs and we keep

adding equipment required for executing cut-to-size jobs. So there will be also some CAPEX on equipments upgrades, so this is a continuous process in terms of numbers which is hardly anything that we need to worry about. It is a continuous process and as the plant becomes old and we find some new technologies to improve the productivity or the profitability, we keep doing that.

Kashyap Jhaveri So should one sort of, about Rs. 20 crore should be the right number to look at it for any product expansion....

Gautam Chand Jain It will depend actually year-to-year, it will depend on requirements in the plants, it depends from the time to time and year-to-year, and there can never be a consistent number to be considered.

Kashyap Jhaveri Would it be equivalent to at least the depreciation for the year?

Paras Kumar Jain I think you are expert in this field, you should look at the number which you think is good for your model.

Moderator We take the next question from the line of Pranav Mehta from Equirus Securities.

Pranav Mehta Sir just wanted to understand on the granite part of the business; so actually as you were saying that it is still struggling, so how much time will it take for the business to see some good ramp up coming in and with this Chinese quartz seeing the anti-dumping duty, do you think that granite might see some positive impact form this because of some of the demand in US shifting to granite?

Gautam Chand Jain We have more or less always foreseen that, that consistency of the granite business is what we look at as the best, if does not go down it is good signal because the market is moving towards quartz as a product category, so I do not know that anything like quartz what you see will happen in granite business. Also of course, due to some price adjustments, some cheaper end products of granite may find some place but more or less I look forward to the same numbers.

Moderator Thank you very much. Well Ladies and Gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Paras Kumar Jain Thank you for your contribution and all your questions. We look forward to talking to you again in the next conference call, thank you.

