



Pokarna Limited

Date: 14th November, 2023

BSE Limited, Phiroze Jeebhoy Towers, Dalal Street, Fort Mumbai - 400 001	National Stock Exchange of India Ltd., Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E) Mumbai- 400 051
<u>Scrip Code: 532486</u>	<u>Symbol: POKARNA</u>

Dear Sir/Madam,

Earnings Call Transcripts

Pursuant to Regulation 46(2)(oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, the transcript of the audio call recording of the Company's Analyst Call held on 09th November, 2023, on the Unaudited Financial Results (Standalone and Consolidated) of the Company for the second quarter and Half year ended 30th September 2023, is attached herewith.

The transcript of recording can also be accessed on the Company's website using the following link:

https://www.pokarna.com/wp-content/uploads/2023/11/Pokarna_HIQ2FY24_AudioRecording.mp3

This is for your information and records.

Thanking You,

Yours Faithfully,
For and on behalf of Pokarna Limited

Gautam Chand Jain
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Q2 and H1 FY '24 Earnings Conference Call Transcript November 9, 2023

Moderator: Ladies and gentlemen, good day and welcome to Pokarna Limited's Q2 and H1 FY '24 Earnings Conference Call.

Please note that this conference is being recorded.

I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you, and over to you, sir.

Gavin Desa: Thank you, Zico. Good day, everyone, and a warm welcome to Pokarna Limited's Q2 FY '24 Earnings Conference Call.

We have with us today, Mr. Paras Jain, Chief Executive Officer at Pokarna Engineered Stone; and Mr. Vishwanatha Reddy, the CFO.

Before we begin, I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties.

I now invite Mr. Paras Jain to open the proceedings and share perspectives and performance and Outlook. Over to you, Paras.

Paras Jain: Thank you, Gavin. Greetings to all and thank you for joining us for this call.

Greetings to all, and thank you for joining us for this call. I won't delve into the specific figures since you already have them at your disposal, but I would like to offer some insights into the current state of the Engineered Stone industry. These insights will help provide context for our financial and operational performance.



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During the quarter, we observed an improvement in margins across various financial parameters compared to the previous quarter and the corresponding quarter of FY 23. This improvement was primarily driven by a combination of innovative product designs, thickness mix and favorable forex tailwinds. We remain committed to expanding our product offerings by introducing more stylized collections and harnessing new technologies that deliver greater value. While we are diligently working on our long-term strategy, in the short term, we maintain our agility by adjusting production to align with shifting market conditions. Internally, we have multiple initiatives underway to reduce costs, enhance efficiencies, and optimize material utilization. Furthermore, we are dedicated to reengineering designs with alternative materials to produce a lower respirable crystalline silica product, aligning with sustainability goals and market demands.

In response to global economic challenges, central banks worldwide have raised interest rates to combat inflation and slow down their economies. These actions are impacting both new construction and remodelling activities in residential and commercial sectors, resulting in postponed spending on new projects. In the United States, mortgage rates have soared to their highest levels in more than two decades, thereby suppressing the housing market and limiting home renovation activities.

Our industry is particularly vulnerable to these pressures, given that countertop purchases are often discretionary. With the substantial fixed costs associated with engineered quartz surface production, competition intensifies as the industry faces a slowdown, and participants strive to maximize sales to absorb these costs. While the anticipated housing sector recovery in the US has been delayed, we are proactively managing our business to optimize results and cash flow until it materializes. We are implementing strategic actions to boost our volumes while prudently managing margins and operating expenses. These actions include launching distinctive and innovative design collections and selectively expanding our presence in various markets.

We recognize the significance of broadening our footprint, and we are delighted with the favorable responses we've garnered from recently entered markets such as Canada, Russia, and France, among others, over the past year. Furthermore, we identify substantial potential in the Indian market, and we are actively engaged in efforts to bolster our presence and local outreach as we prepare for a significant push in this market.

We firmly believe that embracing design innovation and investing in research and development will be the key differentiators for our industry over the next three to five years. Those who fail to adapt to these evolving trends risk being left behind, while those who embrace the future through innovation will chart a new growth trajectory. Consistent with this belief and our strategy, we have chosen to invest up to 10 million euros in technological upgrades to our plant, with expectations for implementation by the middle of the next financial year. Additionally, we are taking steps to lower our carbon footprint and reduce energy costs by investing in rooftop solar energy generation at both of our units.

As I have emphasized in the past, our priority is to effectively address current challenges and position ourselves to seize opportunities as the business environment stabilizes. While the near-to-medium term remains uncertain, I have complete confidence in Pokarna's capabilities. Our design expertise, robust manufacturing infrastructure, strong customer relationships, and expanding



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presence reinforce my belief in Pokarna's ability to perform and continue creating value through its quartz business.

With that said, we are now available to address any questions you may have.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Pranav Mehta from Equirus Securities. Please go ahead.

Pranav Mehta: Sir, I wanted to understand on the margin front, so was there any one-off in the margins, particularly related to export business or how much was the gain from, let's say, Fx because of which the margins saw very steep jump Q-on-Q as well? That was my first question.

Sir, the second question was related to, let's say, the OSHA regulations in U.S. So, as you highlighted that you have started focusing on lowering the crystalline presence in the quartz product, so can you throw some more light on this? And how serious can this issue become in, let's say, U.S. and some of the other markets like Australia and all?

Paras Jain: So, I will take first your question on the margin improvement. See, primarily, as I said in my opening remarks, the new design collections which we have launched in the recent past help us to get a better realization over designs which have been our portfolio for a longer time. So, largely the improvement in margins is coming because the average realization has gone up with the new designs getting introduced.

We did not have any one-off except like, I don't call it as one-off, but as we are a business which is exposed to Forex gains or losses, we had about Rs.1.4 crore of Forex gains in this quarter. So, that's the reasons for margin improvement. And apart from that, as I have said also, there are several other initiatives which are already ongoing in the company in terms of how do we improve our operating efficiency, and those are also resulting in improvement and containment of costs.

Now coming to your second question on the OSHA regulations and what we are hearing on the low crystalline silica products, so, basically, let me give you some context on this.

So, there has been a severe, what do you call, backlash in Australia for quartz surface as a product perceived to be causing silicosis because it has crystalline silica content in it. But in reality, the various other natural stones or for that matter even concrete has crystalline silica in it. It's not the product which causes silicosis. It is the way you fabricate it or process it.

So, when the product is fabricated under a dry condition and without proper PPE being used, the worker tends to inhale the dust and then their lungs get infected, and then the silicosis gets onset.

So, the health bodies in Australia have done certain research and have submitted their reports to Australian government. Apart from that trade bodies, the employee trade unions and Chamber of Commerce and several other bodies also have submitted their recommendation on the consultation which the Government of Australia started in terms of understanding the potential of this product causing a silicosis.



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And then the Safe Work Australia, which is similar to OSHA of U.S. also submitted their report to Australian government a couple of months back, and now the ministers in the Australian government are supposed to take a call on whether to ban the product or have a product which has a lower crystalline silica. So, that is an ongoing process which is there currently in Australia.

Parallely what happened is in California few months back, there was some research articles which got published in some medical journals, which again claimed that engineered stone is causing silicosis. And then California OSHA Board released the temporary emergency standards for asking the fabricators to implement certain engineering controls in their work processes so that there is no dry cutting and they wear proper PPE and there is no dust inhalation which happens.

And then California also said that after 6 months, that is around January '24, we will see as to how the emergency standards have performed, and now that is something which is going to happen after a couple of months. We will have to figure out and see what's the progress in California around it.

So, while all this is happening, we believe that there is a possibility, and we have to be prepared for all the eventualities. And that's the reason for some time back we started working on developing alternative raw materials which can be used as substitutes for quartz in the long run. While the supply chain will take some time for development to happen, but at least from the R&D side, from innovation side of it, we are already ready with certain designs which can be produced in low silica content products.

So, I don't know which way the regulators would go, but what I can tell you is that we have to be prepared for it, and we are doing everything in our control to be prepared for it. And very few companies in India or other parts of the world realize the significance and importance of having a right formulation in place in these times, and I am pleased that we are one of them who is actually taking it very seriously and making leaps in it. So, that's it on my side, Pranav.

Pranav Mehta:

Thank you for the detailed explanation. And sir, a related question to margin. So, now as you said that FX was a small part only. So, can we assume that going forward, now margins can sustain at around these levels, and let's say, slowly and steadily move back to not your historical high, but let's say the kind of margins that you were giving before, let's say, two, two-and-a-half years back?

Paras Jain:

Basically, if you recall all my conversations in the previous calls also, our focus is definitely margins over the price unlike what our competition does. So, while we do whatever is in our power to make sure that margins are healthy, I will not be able to comment anything whether we will maintain it. But what I can say to you is that at the moment the times are uncertain, but definitely we are cautious about what we are doing, and I don't want to overpromise it, but we will keep focusing on 30 plus EBITDA margin is what is our focus at the moment.

Pranav Mehta:

And sir, one last question on debt repayment. So, how are we placed on the debt repayment side? So, already you have bought down the debt in 1H also. So, what can we assume going forward for the second half and let's say FY '25?



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Vishwanatha Reddy: We have reduced actually debt by Rs.47 crore in last 12 months and going forward our actually the obligation is around Rs.35 crore.

Moderator: Thank you, our next question is from the line of Pritesh Chheda from Lucky Investment Managers.

Pritesh Chheda: Sir, just two questions. One, if you could tell what is the capacity utilization in the quarter gone by for quartz? And second, I am not sure, but did you mention that you contemplate a capacity expansion somewhere middle of next year or I misheard it actually?

Paras Jain: So, the capacity utilization definitely is not at the optimum level. We still have a good amount of capacity, as I said that we are aligning our production to the market demand. We have good headroom for the capacity utilization to happen once the demand improves.

Coming to your second question on expansion, I would say that it's not going to make any additional capacity come up, but it's going to help us bring more innovative and transformative products to the market and also probably help us produce a product which will help us to get into a certain specific segment where the product is currently not used in volumes. So, the Investments are more of technological upgrades to empower us with higher technical and design aesthetics, and we expect that the implementation of this CAPEX should be over by middle of next financial year.

Pritesh Chheda: How much are you spending here?

Paras Jain: Up to €10 million is what we are going to spend on a couple of different items.

Pritesh Chheda: This enriches the product or improves the volume.

Paras Jain: Product.

Pritesh Chheda: And so this 10 million, so usually your asset ratio is 1:1. This 10 million will do what your overall asset turn?

Paras Jain: So, basically, we expect that the product should at least give us 20% extra realization over what we currently get.

Pritesh Chheda: And just one last follow-up. We have seen in the quartz business for the last seven, eight quarters, you know, business moving in the first half of '22 calendar year doing well and then, you know, changing. Now, you know, you are back to kind of a peak business size. What would be your guess in terms of business momentum? Do you think it accelerating? Do you think the market inventory is now normalized? Any comments there?

Paras Jain: I think the market is still uncertain. So, I don't think it is peaked out yet, and I am little cautious about how the next three quarters are going to be. As I said in the previous calls also, I believe that the second half of FY '24 is what is our assessment that market should become relatively normalized than what we are seeing. So, I think it's going to take little time for the market to stabilize.



Pritesh Chheda: Second half of calendar '24?

Paras Jain: Second half of financial FY '25 I would say.

Pritesh Chheda: Which is calendar '24.

Paras Jain: Yes.

Moderator: Thank you, our next question is from the line of Hrishikesh Bhagat from Kotak Mutual Fund.

Hrishikesh Bhagat: So, few questions from my side. First, how is the situation on the U.S. side? On the U.S. side, how is the demand from over the next few quarters? Is it improving? And the product mix improvement that we have seen this quarter, is it likely to sustain over the next few quarters?

Paras Jain: So, basically, the channel still has inventory is what is our assessment because I think the channels we are working on reducing the inventory in line with the demand what they were seeing coming. And I believe that next couple of quarters the same reduction of inventory would continue in the channels in the U.S.

The products mix what we are talking about, see, as I said in the previous calls and also in certain of my opening remarks, design innovation is the way to go. That's where the product mix is going to help you because you are able to get a better realizing product and apart from the thickness and all that stuff.

So, while our efforts are to make sure that we have this staining, but then there could be little temporary pause also, because from a design-to-design difference between the two design collection launch period, there could be little cooling period as well. So, by the time we put some more new designs into market and the old designs which were introduced about 6 months to 9 months back again becomes in a regular cycle, there could be little pause, but I think that's part of the process. So, there could be little pause I believe.

Hrishikesh Bhagat: The other question is the response to Pranav's question regarding meeting the regulation and reducing the silica content. So, just wanted to understand if we are trying to reduce silica content, is the substitute, is there anything that we will use? So, how will that impact on our cost on the material side? And secondly, does this anyway impact the product strength or anything in terms of aesthetic or durability or in terms of ability to offer various design if the silica content is reduced?

Paras Jain: Basically, definitely, today the supply chain industry of this particular raw materials what we are working with is limitedly developed because this is completely a new raw material for this application what we are talking about. So, it's going to take some time for the supply chain to develop. So, there could be a little higher cost at the beginning because you have limited options to source from, but I think as the industry stabilizes and matures, the sources of raw materials would also be open up.

So, while at the initial beginning, yes, there is a cost difference, which we will have to figure out how does that translates into passing, not passing and all in the days to



come. So, that's something which we will address only when we come very close to it.

Hrishikesh Bhagat: From a customer standpoint, in the sense, does it change the offering in terms of design availability?

Paras Jain: I am coming to that question now. So, now how does the product perform aesthetically and technically for the consumer? The research what we are doing, we believe that the product would be very similar to the product what we are looking to what we are currently offering, and the trade should not relatively have much challenges in, you know, with the product handling and processing is what is our assessment. Because at the end of the day, the transition has to be very smooth for any trade to sustain, and our focus on R&D is on that side of it.

Moderator: Thank you, our next question is from the line of Shreyans Jain from Svan Investments.

Shreyans Jain: So, first question is on coming back to the margins. So, this quarter we have seen a lot of improvement on the margin side, and when I look at your P&L annually, freight was one big cost. So, where are we on that? And do we envisage a scenario where we can see at least margins improving from here on?

And my second question is, sir, you mentioned about new CAPEX. So, just wanted to understand a little better on that. So, will that apply to all our products? What is it specifically? And once the new product is out, what do you have to do to market that product? And do you think the market is ready to take a product with 20% higher realizations?

Paras Jain: So, on the margin improvement side, as I have said at the beginning also, that it's predominantly driven by our innovative designs what we have launched, and apart from the cost efficiencies what we have, and also little whatever cooling down of certain raw material prices.

So, in the past also, the freight what we were actually recovering on the export sale was largely passed through because we were buying the containers at X price and we were selling it to our customers. So, we were not really incurring any cost on it. What we were actually incurring much cost was on the freight imports what we were having from different parts of the world. We import a lot of raw materials. So, we were having because all those costs were coming to us and we were not having the ability to pass on the increased freight to the customer.

So, today, the scenario in terms of the export is relatively better than what it was in the past because the freight rates have dramatically come down from the peaks of around COVID time to today, and our customers are rather happy that they are able to buy a product which is cheaper on landed basis compared to what it was in the past. So, we have not gained anything. We have not lost anything on this freight adjustment on the export side of it.

On the import side of it, yes. There was a time when we were paying \$3,000 for a container from a particular country to come to Vishakhapatnam. Now, the situation is that they are asking us \$100, that if you give us \$100 because they want the containers to come back to India. So, they are able to give us that. Of course, that



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does not translate into big money saving for us, but I am just giving you a perspective that there is relatively some saving on the import freight side of it.

Now coming to the CAPEX, I will not be able to divulge much details on what it is on the specific side of it because of certain obvious business reasons, but what I can tell you is that this is going to help us improve the product design significantly.

It is also going to help us give an entry into an application which we believe can be a big area of application in the future for this product, which currently this product is not used for those applications for several reasons.

And the marketing side of it, I think we don't have to do any specific marketing only for this product. Whatever marketing, we do for all our other products, along with that, this marketing should be good enough to push. And we already know the customers. We already know what we are doing and how we are going to do in market. So, I think we are pretty hands-on with what we are going to invest in and what we are going to get from it.

Shreyans Jain: And so just last bit, what would be the payback for this CAPEX? And what kind of revenues, if you could just give us a sense on that, what kind of revenues can be generate from this 10 million? It's euros, right? €10 million?

Paras Jain: Yes. So, it's a €10 million. So, we typically expect 5 years payback on it. On the revenue side of it, I wouldn't want to get much into it for certain specific reasons, but I think a 5-year payback can give you much understanding as to what when the investments are going to be recovered.

Moderator: Thank you, our next question is from the line of Dixit Doshi from Whitestone Financial Advisors Private Limited.

Dixit Doshi: Just a couple of things. So, obviously, you mentioned that channel inventory is still there, and it may take some time, and we are cautious, but our Q2 performance was quite good. So, in terms of exit, not about exit numbers, but in terms of order book or order inquiries, how you are looking next few quarters? Is it looking more or less similar to plus minus 2%, 5% similar to Q2 numbers?

And in terms of product mix, in a couple of calls back, you mentioned that for any plant 30% to 35% high range, 30% to 35% medium and 20% to 25% basic product is a good product mix. If you can just broadly say where we are standing in the new plant in this product mix?

And my last two question is, if you can throw some more light in terms of our India market strategy and the rest of the world like Canada, Russia, how is the response? And my last question is a bookkeeping question. So, if we see our Q2 numbers, we have provided for almost 35%, 37% tax rate. So, have we not moved to the new tax regime, if you can throw some light over there?

Paras Jain: So, coming to the product mix, I think we still feel there is a possibility to improve the product mix, and if the hospitality segments also catches up along with the other whatever we are targeting, I think we will have a good headroom there to improve, but let's see how it goes around.



In terms of the future performance, yes, as I have said in the past, I continue to maintain we are taking month on month. So, I don't have much visibility beyond a month, and I would stick with that. So, what's going to be there in next couple of quarters, difficult to say today, but as we were doing in the past, we will have to take month on month.

Dixit Doshi: So, at least October was good, I mean, if you...

Paras Jain: No, let me complete it, and then you can come back to whatever questions follow-up you have on it. So, on the India market response, yes, we have over 100 locations, we are already available today. Yesterday, I think, the day before yesterday, we had another partnership launch in Coimbatore where one of our kitchen and bath dealer put a huge kitchen outlet in Coimbatore and with all our products are on display there.

So, like that, we are selectively expanding in different geographies within India as well, and we are also working on additional strategy of how we cater to the bulk institutional segment. So, right now our focus has been more of retail segment for the brand building and also for understanding the nuances of the market, but equally, now we are going to be focused in the days to come or some months to come for that matter on the institutional buying segment like builder, stockists and all. So, we are going to work on that side of it in the days to come.

Coming to Russia, of course, Russia was initially a challenge for shipping, but I think more or less we have figured out the way, while the transit time is relatively longer than what it is for the U.S. for obvious reason. But I think the response has been, touchwood, really great in Russia, and we have got repeat orders as well, and the partner in Russia is an experienced player in the market, has been distributing the product in the past also for several years, and they are doing pretty good job in tapping that market.

Canada is also doing good. We have got a distributor appointed also in Mexico again under Quantra brand. So, like both Canada, Russia, and Mexico we are not doing OEM. We are doing all our brands. So, we are looking at creating the brand equity because the innovative and decorative products what we make helps us to get a better realization if the brand value is also equally strong. So, that's been our focus on those markets.

Dixit Doshi: On the tax rate, if you can?

Paras Jain: So, I think we have got a MAT credit. So, I think that's the reason why they are giving a lower number there.

Dixit Doshi: No, my question was, so it was 37% tax rate provisions.

Paras Jain: So, it was 35%.

Dixit Doshi: Yes.

Paras Jain: So, what's the question now?

Dixit Doshi: So, we have not moved to the 25% tax regime. That was my question.



- Vishwanatha Reddy:** Once the MAT credit is utilized, then we move to new tax.
- Paras Jain:** So, what our team says is that we have pending MAT credit utilization. Once that credit is utilized, we can move to the new tax regime.
- Dixit Doshi:** And what I was asking in terms of, so as you mentioned that, you know, we are taking month-on-month. So, if you can just broadly say, has the October been the similar trend?
- Paras Jain:** See, I think, Dixit, I have answered whatever I could to the best of my abilities.
- Moderator:** Thank you, Our next question is from the line of Sonaal Kohli from Bowhead Investment Advisors.
- Sonaal Kohli:** Sorry I missed maybe, you know, some part of the call. So, I may be asking a repetitive question. So, sir, in terms of, you know, U.S. we are seeing that the housing demand really has not been falling. Do you suspect that most of the houses which are being bought today, they are being bought on cash, and therefore, mortgages increase is not having that kind of impact which it had 2 years back or one-and-a-half years back when the cycle started, and therefore, you know, both the U.S. housing demand is more resilient, and therefore, the prospects for your business in the medium term?
- Paras Jain:** So, I have a difference of opinion on this basically. So, I believe that while the housing demand has been relatively resilient is what is being said in one quarters, but if one looks at the practical whatever I have seen in terms of talking to channel and going around and seeing, lot of people, at least to my knowledge, are not going around buying a new house just because there is a higher equity because the equity uptake has not been definitely as much as the mortgage rates have gone up in the absolute terms.
- And secondly, we believe that the average, if you look at some of the reports, the average U.S. age of the house is around 50 years, which means that it's up for remodeling. But since the countertop as a category is a discretionary purchase that you can actually push things. It's not something which is a necessity. It is a type of luxury especially. So, I think there is definitely a push out of that side of it.
- So, the only segment where we have not seen the market really tapering down the countertop side of it was the highest of the high segment of the product, but when you look at the bottoms of the things, across the channel, what we have seen is that either the volumes have shrunk for the trade across, or they have remained flat but came at the cost of severe price reduction.
- I think another couple of quarters or maybe three quarters, probably this pain should be largely be over is what is our assessment. So, we believe that while the U.S. housing stats or in general, they seem to be giving a different picture, but if you look at the survey of National Kitchen and Bath Association of U.S., they feel that second half of '24 is going to be better, and they don't believe that this period or the forthcoming period is going to be relatively better.
- Sonaal Kohli:** But sir, is my understanding correct that, you know, U.S. housing would be a lead indicator and because the surveys last time when the U.S. housing sales has started



falling was still very positive, but went all wrong? So, generally, there would be a 12, 18 months lag between housing sales and your business.

Paras Jain: Definitely. Because see, ultimately by the time the house is ready, the countertop is one of the last items to come in. So, 12 to 18 months is definitely a lag period depending upon when you have the market coming back. See, all the research in a way is crystal gazing. Some of them have a good luck factor with them, and they are able to predict better than the others, and some of them have probably a bad luck factor and their research go wrong. So, I am really clueless on that.

Sonaal Kohli: So, secondly, in terms of the geographies, is it fair to say that, you know, the geography which is likely to become your second biggest in couple of years, or has the highest possibility of becoming the second biggest would-be Russia?

Paras Jain: We have couple of other markets also. I can't give as of now the other territory, but definitely India is one of them, that India can become a big number if we are able to implement the strategy well. Russia, yes, in a period of three years, Russia can be definitely one of the top five markets what I say.

Sonaal Kohli: So, over a two, three-year period, you think India could be even bigger than Russia?

Paras Jain: Yes, if we are able to do implement our strategy well, India has lot of potential. I think we are in the best of the times today.

Sonaal Kohli: And lastly, sir, in terms of your margins etc., I am sorry, I missed it. Your margin improvement, was it led by largely product mix and some operating leverage, but largely product mix?

Paras Jain: Yes. So, we had innovative designs which we launched in the recent past being a heavy weight on that, and then, of course, the thickness plays an important factor. And then we had a small component of foreign exchange gain of Rs.1.4 crore for the quarter.

Sonaal Kohli: And you know, this product mix, do you think it's plateaued over here, it's going to go down from here? You think there is still some scope of improvement compared to what you have shown?

Paras Jain: There is a scope for improvement definitely, but then I think there could be a temporary plateau in some time before it peaks out.

Moderator: Thank you, Our next question is from the line of Kushagra Bhattar from Old Bridge Capital Management.

Kushagra Bhattar: Few questions. I will start with the industry ones first. You have been speaking about the pressure and the utilization levels of all these guys who are sitting with high cost, fixed cost basically leading to price pressure. If you can help us understand what's been the pricing trend? I know you have certain new launches, but let's say, some of the same designs which you have been selling for some years, like, how the pricing trend has been? Like, how much it is down over last year and over, let's say, 2, 3 years period? If you can give some color over there?



Paras Jain: Yes, you are right, Kushagra. At the bottom of the pyramid and at the middle tier, there is a good amount of pricing pressure coming from across the geographies, whether it is Southeast Asian countries to Europe to America producers and of course, all our friends from India also continue to be competing largely on the price than on the product.

So, depending upon which segment and which type of client you operate, I have seen pricing pressures coming all the way from 5% to 20% also in certain price categories, but when it comes to those design in Innovative and transformative designs, because those are not me-too type of designs, and they very unique and new to the market, pricing has been consistent around that side of it.

Kushagra Bhattar: And the second is on industry again. I just wanted a perspective. You in the past con calls, you have also highlighted that, you know, some of the Chinese companies have uprooted their capacities and established in the other markets. So, that is one factor which was happening when the industry was doing really well. Now, first, if you can quantify how much industry level capacities have increased broadly? And the second is, now when the environment is still challenging, do you see sort of capacity shutdowns in the current environment? Because, first, you have lower demand. And then, second, some of these companies would have taken debt to expand capacities as well, and in this high interest rate environment, they would be facing good heat on their cash flow. So, just a perspective over there.

Paras Jain: So, basically, you see Chinese have moved to different parts. They moved to Vietnam, Malaysia, Cambodia, Indonesia, Thailand, and Indian manufacturers also imported certain technology from China, and some of them imported from Breton as well and put up their manufacturing plants in India.

So, I believe that industry is definitely going through a tough times in terms of capacity utilization. So, depending upon what type of product capability, relationship, infrastructure you have, you may have an idle capacity of anywhere between 40% to 80% is what is my assessment. Because when I talk to some of the competition around here, that's the assessment I make in terms of how idle their capacities have been.

And also there is definitely an overcapacity. I don't have the exact number of it, but definitely there is an over capacity compared to the growth in the demand currently, because everybody thinks that U.S. is ready to buy whatever you produce, but I think there is a total addressable market there, and the current capacity which is already installed is definitely over the total addressable market in the U.S. as of now. And I see that the environment is going to be challenging for certain producers if the strategy is not right.

That's the reason we have taken a different path. If you look at like, while we were questioned for our margins and all that in the past, but we prioritized our product over the pricing, and that has shown us the dividends, and we believe that we will continue the same strategy, because that's the way to navigate this environment.

Kushagra Bhattar: That's helpful. These last two questions. One on all this €10 million investments, is this largely towards the newer designs or the concerns which you highlighted on crystalline silica, are any of those €10 million investments towards working on this newer technology wherein you are reducing the crystalline silica and which would



require some plant tweaking and all or there are no investments in this €10 million, and this can entail further investments going forward of working with lower crystalline silica in your products?

Paras Jain: Up to €10 million what I was mentioning is largely for technological upgrades which will help give us some equipment, which will help us produce more transformative designs in the days to come. So, this has got nothing to do with the investment.

Kushagra Bhattar: On the crystalline silica. All right. And last, when you mentioned that you are working with or you are thinking of going with your own brand in the newer markets and not going through OEMs, just trying to understand are the arrangements with your channel partners different versus what you have today in U.S., or they are in a very similar arrangement? And if yes, if you can give some color with respect to what are these arrangements with them? Those were my questions.

Paras Jain: When you promote Quantra as a product, you typically get access to several things. So, there is a boutique of perquisites which we will give to Quantra branded distributors. They have priority access to the designs. They have a lot of marketing support. They get some marketing rebate from us. Because they are helping us create the brand equity in the market, we are also in a way relatively co-investing them in certain marketing activities of those particular regions.

So, if you look at our foray into Russia, we have not gone with OEM. We have gone with our Quantra as a brand. Canada again, we have gone with Quantra as a brand. Mexico again, we have gone with Quantra as a brand. Even in the U.S., I think we have around four distributors, and they are covering around 16 different locations in the U.S. And we are adding few more as well.

So, our focus has been definitely if the geography and if the current already existing arrangements permit us to get into some sort of branded distribution, get into that, because over a period of time, I think the brand value will help you to have a better realization compared to being a white label manufacturer.

Moderator: Thank you, Our next question is from the line of Shikhar Mundra from Vivog Commercial Limited.

Shikhar Mundra: So, just wanted to understand how much percent of our total volume are these new innovative designs, which help us increase our margins?

Paras Jain: I am sorry, I will not be able to dwell much into it.

Shikhar Mundra: So, do you see this number going up further the product mix?

Paras Jain: Definitely, it has a lot of headroom, and if we are able to implement our R&D strategy and our business strategy right, there is a head room to improve.

Moderator: Thank you. Our next question is from the line of Anand Jain, an individual investor.

Anand Jain: Can you give us any indication in terms of, you know, average pricing of the traditional versus newer design? Either in terms of percentage or in terms of absolute number, that would be very helpful.



Paras Jain: I will not be able to give much details on that because I see a lot of competition is already on the call. So, what I can tell you is that it is definitely a double-digit over the previous pricing.

Anand Jain: So, the reason I am asking you this because, you know, if we observe at some of the products of one of our competitors called Cambria, which is a leader in the space in terms of design I mean, some of the product sells at like \$30, \$40 per square feet, and if I were to look at, you know, the lower end of the products, they also go at \$4 a square feet kind of a number. So, that's the reason I just, I mean, once we know that, you know, where are we heading, can we go and compete with Cambria going ahead in terms of design, that would clearly increase, you know, that will clearly do very well for us in the design part?

Paras Jain: I think that comparison is not apt for the simple reason when Cambria gives a \$30, \$40 product, typically that is a \$30, \$40 product in the U.S. for the consumers. So, like today, even I have customers who are buying the product from us and able to sell the product at \$30, \$35 in the trade out there, and there are products which have been sold at \$7 or \$8 also in the U.S.

It's all the perception on the brand and the design basically. So, that's the reason if you follow what I said a little while ago, the brand value of Cambria is significantly higher than anybody else including Quantra in the U.S. And that's the reason they are able to get a better price and of course, all compliments to them, all credit to them. They make good product, and they are able to demand that type of price.

Anand Jain: So, my question here is, how do you think of our Products in terms of design? Are we at par with Cambria? That's the question, or do you think there is some place for us to move?

Paras Jain: Basically, it is a perception. First of all, let's understand this, that design is a perception. Everybody thinks it differently. What is good to you may not be so good to me or it can be vice versa as well. So, I believe some of my designs are better than Cambria, and some of my designs definitely can be better than Cambria as well. So, not all the designs of every manufacturer are wow. At the same time, they are not so wow as well.

So, we have designs in certain of our collections which are far better than anybody else. So, I don't want to name the competition like X, Y, Z. I would say across the board, when you compare us with the serious manufacturers, ethical manufacturers, those who are not trying to copy the design, those are not trying to, you know, do some pilferage, espionage through some poaching of employees, our designs are far, far better than all those competition designs.

Anand Jain: That's good, sir, One last question, sir. If I were to look at like I know that it's very difficult for you to give a number in terms of what I am asking, but if you can give in some ways, you know, last year the same quarter, how were we doing on the newer designs versus this year this quarter? Like, if you were selling 10% of our total sales came from new design, so this year, this quarter, is it like a 20%? I mean, anything which doesn't give out anything to competition but still as an analyst tells me that, you know, how this newer design sales have moved?



Paras Jain: What I can tell you is that definitely in this quarter, the mix is far better than what you had in the corresponding quarter of last year. That's the reason, in spite of the sales being down on half year basis or quarter basis, everything else we have, you know, caught up to. So, it's purely driven by the design. And of course, there has been cooling of raw material prices and the Forex did not create any challenges for us as it had done in the last half of the year.

Anand Jain: Last question, sir. What were the exhibition expenses because we were at Marmomac and probably one more exhibition last quarter? And typically, how do you see these expenses, you know, annually?

Paras Jain: Typically, what we do is that we do a provisioning of the expenses. We take the expenses on the annual basis. We have a number, and we apportion it on four quarters. So, you will not see a quarter-on-quarter difference coming in the expenses. So, irrespective of the quarter we participate in, we make sure that because since these all are done for the year, they are equally apportion for the four quarters.

Moderator: Thank you, our next question is from the line of Shreyans Jain from Svan Investments.

Shreyans Jain: So, my question is more on the volume bit. So, you mentioned that there has been some product mix Improvement and that has improved our margin. So, just wanted to understand what would be a volume degrowth Y-o-Y?

Paras Jain: It's a double-digit degrowth, I would say.

Shreyans Jain: And Q-o-Q, sir, you have seen any improvement?

Paras Jain: Q-o-Q, again, there is definitely an improvement, but primarily the improvement was on the product mix side of it, not so much on the volume side of it.

Shreyans Jain: My second question is, sir, few quarters back you had mentioned that domestic business you expect about 10% of sales to come from domestic business in the next 3 to 5 years, and you also mentioned that you have about 100, 110 odd dealer distributor. So, what has been the sales velocity there, sir? How has been the response? I don't want any numbers specifically, but are you seeing sales doubling? Or how is, if you could just explain the velocity there?

Paras Jain: The sales in India have been like the segment we were catering. In terms of volume wise it is relatively lower, but in terms of realization because we have a unique business model something similar to what our competition does in U.S. where we do a complete installation of the kitchen and not just sell you a slab. So, the realization there is relatively better than just selling a commodity of a slab, and the sales in the domestic markets are picking up well, but as this business requires relatively, see, by time you go around, do the display at one particular location, by the time you generate an order, it typically takes between 6 to 9 months because usually the partners with whom we work with, they have three to four months lead time for the kitchen to come from some Europe or other part of the world, and our countertop comes after that. So, typically, once we start the association, it takes six to nine months for the sales to build up, but whatever we are doing in terms of building the network, it is definitely helping us get a better brand visibility, get a better realization,



and also helping us acquire certain customers because there is lot of word of mouth which is also playing.

Shreyans Jain: So, do you think you can do Rs.100 crore in the next three years because that's what your guidance was I think in the two quarters back? So, do you think you can do that number in the next three years?

Paras Jain: If we implement our institutional sales strategy well. That's possible, because that's where the bulk volumes would come from. The kitchen and bath segment currently what we cater may not give us that side of number, but to get to the numbers which are 2x, 3x from what we are currently doing, we will have to work with the institutional buyers and the large trade distributors.

Shreyans Jain: And sir, are you exhibiting in any of the building material exhibitions that happen in India?

Paras Jain: We don't directly exhibit in the building material exhibitions which happen in India, but some of our partners who carry our products, they do exhibit like some of them exhibit at **AgeTech** and all. So, we have our product displayed on that, and we have sales guys who are there to guide and support.

Moderator: Thank you. Ladies and gentlemen, that was the last question of our question-and-answer session. I now hand the conference over to the management for closing comments.

Paras Jain: Thank you so much, everyone. And I wish you all a Happy Dhanteras and Diwali. Have a good time with your family. Wish you a safe Diwali. Thank you.

