



“Asian Granito India Limited Q1 FY-18 Earnings Conference Call”

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**MANAGEMENT: MR. KAMLESH PATEL –PROMOTER, CHAIRMAN &
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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY 18 Earnings Conference Call for Asian Granito India Ltd. This Conference Call may contain forward looking statements about the company which are based on the belief, opinions and expectations of the company as on the date of this call. These statements are not the Guarantees of Future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Patel – Promoter & Chairman and Managing Director of Asian Granito India Ltd. Thank you and over to you sir.

Kamlesh Patel: Good afternoon everybody. I welcome you all to the Conference Call with me are the company's Managing Director – Mr. Mukesh Patel, our Finance Head – Mr. Himanshu Shah and our Investor Relation Advisor – SGA. I expect that you all have got the company's results and presentation.. The one who haven't got the results yet can look on our website.

In Financial Year 2017, we faced some significant challenges but still had grown about 7%. In the month of April and May sales was very good for us but June was a bit weak due to GST wherein dealers did a lot of de-stocking. We will not be much impacted due to the 28% GST as the taxes before GST were also in the similar range of 28% -30% only.

Due to GST our overall logistic costs would reduce which would benefit us greatly. In July, our sales were weak for the first week or so as lots of issues related to GST including Dealer registrations were pending. But since then, there has been a volume pick up and we have seen a good overall growth in the month of July also.

We have recently launched new products in the 'Rainbow Glitz' segment which include Decorative Wall Tiles, Polished Porcelain, Elevation Tiles with all new 9 Colour Technology and high-end finishing. These tiles are eco-friendly tiles, Temperature Reduction series tiles which keep yourself cool, Stain & Scratch Resistant Tiles and Unique Tile Step Riser Series Tiles.

To be competitive in the industry and be ahead of the times our company's focus has solely been on technology upgradation and product innovation. The biggest threat to our industry was China dumping it's tiles and in that Government has helped us as anti-dumping duty of \$1.87 per square meter has been levied from 1st April 2017 for five years. Even the tiles imported will have to pay GST and the duty which will make imported tiles costlier. So in the coming years we expect the imports to reduce considerably. The management is focused on creating a better brand and building a large distribution network in the coming times. We plan to send ~2.25% - 2.5% on our branding in coming years.

In FY16, we had completed more than the targeted 120 exclusive showrooms. In this quarter, we have added 22 showrooms taking our total to over 160 showrooms. We have 55 showrooms already in our pipeline. By the end of FY17 we plan to have over 200 showrooms wherein the best products of GVT, PVT, quartz which have high margins would be showcased which would increase our retail sales and reduce our institutional sales. We have increased our dealer network also and have 975 exclusive dealers currently. Our target for the year is to have 1200 such dealers.

All the players using natural gas and LPG had a 15% tax structure of which 4% had to be paid and a 11% rebate was available from the State Government. That rebate was taken away from July. But the industry had presented the case to the government and finally relief was given wherein 9% rebate would be given to the players. This is a great news for all of us.

We have continuously increased our marketing activities. For the first time in 5 years we are participating in the Italy Exhibition and also have a display outlet at the CERSAIE exhibition thereby increasing our international exposure. Even in Mexico we are doing a lot of activities which is also an upcoming market. We have been continuously participating for the last 3 years in the Big 5 Festival in Dubai. Recently in Mumbai we had a get together of 500 dealers where we launched 250 new design and other innovative products. We advertise our products in news magazines whichever are architect related or in tiles magazines. We have participated in 1400 cinemas where our advertisement has been shown. The company is planning a JV in South India wherein we shall have a 51% stake. We will be manufacturing Soluble Salt and GVT products in the mix of 80:20. Recently we have signed an outsourcing contract in Morbi of 15,000 boxes per day wherein we shall give them the designs and specifications. There will always be a technical person at their plant for monitoring the operations.

With all the efforts that we are taking plus the push from the government with Affordable Housing and Swachh Bharat, our vision is to reach a gross turnover of Rs. 2,000 crores in the next 3-4 years. Now I would like to hand over the line to Mr. Himanshu Shah to update you on the operational performance of the Company.

Himanshu Shah:

Thank you Kamlesh sir. Now I will take you all through the financials of the company. These numbers are in accordance with the new Ind-AS for the first time.

Revenue on consolidated basis for the Q1 FY18 is Rs. 226 Crores growth of 7% on y-o-y basis compared to Rs. 212 Crores in Q1 FY17. And that is mainly due to our volume growth in this quarter of ~18.6% and value growth in tiles has been 11.6%.

EBITDA for Q1 FY18 stood at Rs. 29.4 Crores compared to Rs. 25.7 Crores in Q1 last year, a year on year growth of 14%. This is mainly due to increase in sales of high value and premium products. EBITDA Margins improved by 80 bps to 13%.

Profit after tax for the quarter is Rs 11.1 Crores compared to Rs. 8.7 Crores in Q1 last year, a year on year growth of 29%. Net profit margin is 4.9% as against 4.1% in Q1 previous year, an increase of 80 bps.

We are continuously working on reducing our Working Capital Cycle and it will reduce in the coming year. Currently our working capital days have reduced from 95 days to 87 days. We are mainly focusing on the collection part along with the sales and we have opted for strict credit policy also. We aim to further reduce our Working Capital days to ~75.

For Q1 FY18 our revenue mix was 89% from Tiles and 11% from Marble and Quartz. There was reduction in marble sales as till last year we used to import marble under a license available to us but as per the new government policy, the license has opened. In quartz we have grown about 14% in year on year basis. For this financial year approximately the ratio would be around 13% from marble and quartz and 87% would be from Tiles.

Our mix has continuously changed where we have increased our value added products with higher margins in the Tile Segment. Our GVT was around 19% and double charge was around 22% which has risen in this quarter to 21% and 24% respectively. PVT which was around 23% has reduced to 19%, and ceramic has remained at 36%.

Our geographical revenue breakup is 38% from West, 31% from South, 19% from North and 12% from East. Thank you very much. With this, I would like to open the floor for Q&A.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: Thank you for the opportunity and congratulations on the strong performance. My question is related to contract manufacturing after GST what is the potential of contract manufacturing and can your target of reaching Rs. 2000 crores be surpassed by taking the share of the unorganized sector? Is there an increase in the demand after GST implementation?

Himanshu Shah: Post GST, Morbi has switched into the Billing Pattern. Slowly most of the Morbi players are coming into the GST regime. These are positive signs for the industry. Due to the festival of Janmashtami, there is a slowdown seen in the regions of Morbi and Rajkot. What we have witnessed is growth for us as we have been able to take the market share of those unorganized players. We are not incurring huge Capex for the wall tiles (ceramic product). We are looking to outsource the high end product with incurring low costs. We will sell those products under the AGL Brand wherein we shall use our networking which will benefit us.

Anshuman Atri: Do you have plans for that and how do you see the mix in share for contract and our own manufacturing in upcoming 2 years?

- Kamlesh Patel:** We are currently seeing huge opportunity in the 12 X 18 format tiles which has huge demand currently. Going forward, it may happen that some other product like the Double Charge 600 X 600 which is also seeing demand in the affordable housing space, we may again outsource through contract manufacturing in Morbi these products. This will help us to achieve our target of Rs. 2,000 crore of Topline by 2020-21.
- Moderator:** The next question is from Praveen Sahai from Edelweiss. Please go ahead.
- Praveen Sahai:** Sir my question is regarding the gas contract at Crystal which is at lower rate. For how many years is this contract there?
- Kamlesh Patel:** The contract has been in existence from the last 10 years from 2006-07 and as it is an isolate division, our contract gets renewed every year. Every year we renew our contract for which the prices are related to the APM pricing, which is currently around Rs. 7 per cubic metre. Every quarter the price may increase or decrease by 15-20 paisa.
- Praveen Sahai:** So every year the pricing also renews there?
- Kamlesh Patel:** Yes the prices depend on international pricing. So our quantity remains the same but pricing fluctuates every quarter. The prices we get at Crystal are 3.5-4 times lower than the usual GSPC gas that we take at other plants.
- Praveen Sahai:** Okay. Can you elaborate on the 15% tax on Gas and the new tax rate for the same?
- Himanshu Shah:** Before GST, there was 15% local VAT on gas of which we used to get 11% rebate and our cost was 4%. Post GST we did not get any rebate and the whole 15% was our cost. But yesterday only, the government has come out with a good amendment where we shall get 9% rebate now which will get set off. So our cost would now come to 6%.
- Praveen Sahai:** Right sir, lastly on your realization, if I see for this quarter your tiles realization in all three segments that is your own manufacturing or outsourcing on YoY basis has come down and overall also the realization of tiles has also gone down. But are we looking to increase our retail presence and increase our GVT and Double Charge percent share?
- Himanshu Shah:** Last year also the growth of 6% was only on account of change in volume mix. Realizations have been reducing since a few times now. Our focus is clearly on GVT and Double Charge currently. Our GVT mix is currently 24% which we plan to take it to 27% by year end. Our Double Charge mix is 21% which we plan to increase to 25%. For PVT, we will look to outsource them.
- Praveen Sahai:** Thank you sir.

- Operator:** Thank you. The next question is from Manish Oswal from Nirmal Bang. Please go ahead.
- Manish Oswal:** My question is related to GST, you said that in the June quarter we lost volumes due to GST so sir could you quantify the number and secondly is there any impact of GST related cost in the P&L?
- Himanshu Shah:** There was no volume loss in the June quarter. In fact our topline grew by 7% whereas volumes grew by over 17%. For the month of June only we saw a lot of de-stocking from the dealers which reduced sales a bit. Once GST was implemented from 1st July we saw some disruption for the first week but things have normalized since then and we have seen double digit volume growth in the month of July also. We expect this quarter to also have high growth. Our profitability has improved due to change in product mix.
- Manish Oswal:** We have launched new products in this quarter also, so a full year margin guidance of 15% which we said at the beginning of the year - are we moving in that direction and are we confident to achieve that number?
- Himanshu Shah:** Definitely we are moving in that direction only.
- Manish Oswal:** Third question in on the distribution side. How many more showrooms will we open this quarter and would you share some thought on the distribution side - how much we need do more on the specially in the eastern market and southern market?
- Kamlesh Patel:** Already last year we had 120 exclusive showrooms and 16 display centres. We have inaugurated 22 new showrooms in the first quarter and 55 showrooms are already under work in progress. 33% of the showrooms are increasing in South India but in comparison more showrooms are opening in North India. In east India around 11% showrooms are increasing. As we have a very strong hold in west India, our showrooms are comparatively less here. By the end of this year we should have over 200 showrooms.
- Moderator:** Thank you. Next question is from the line of Navin Tekumoney an individual investor. Please go ahead.
- Navin Tekumoney:** First of all, I want to congratulate the management for the good set of numbers. I am from Andhra Pradesh and have been seeing your advertisements in the cap segment across Chennai. I have two questions. I am comparing our company's return on equity and operating margins with the peers and why it is very less? And how do you manage your input cost and energy cost and what is our company's growth plans to achieve the target of Rs. 2000 crores?
- Kamlesh Patel:** We are continuously focusing on increasing our retail sales. By the end of this year we plan to have over 200 showrooms and by 2020 we plan to have over 500 showrooms PAN India. Till

last year our retail sales was around 30% which has increased to 37%. We aim to increase this to 50% in the coming years. We have also started the Government Vertical to our business. We have allocated manpower also. We shall outsource these products through contract manufacturing from Morbi and we expect around 25% of our business coming from Government in the future. We are expecting a turnover of Rs. 150 crores from the plant that we plan to put up in South through a JV. We will be mostly manufacturing soluble salt product where the transportation cost of such low value product is between 18% - 28%. The transportation cost is ~ Rs. 6 -7 per square feet currently. The plant in south will reduce our transportation cost and help us achieve over 10% PAT Margins from this plant. Post demonetization and with implementation of GST, we are looking to invest in brand building. We will look to improve our Capacity utilization from 65-70% currently to ~85% which will increase revenues by another Rs. 150 crores. In Crystal, where we did a turnover of ~Rs. 192 crore, that will increase to ~Rs. 300 crore this year. All these will help us to achieve our target of reaching Gross Revenues of Rs. 2,000 crore.

- NavinTekumoney:** Sir our company has a 43% share in premium segment right? Is it correct?
- Himanshu Shah:** Yes, in the Marble and quartz segment in the domestic market we have a 43% spread.
- Moderator:** Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.
- Prashant Kutty:** Sir my first question is regarding realization, I didn't understand why you said that realization has reduced in this quarter?
- Himanshu Shah:** In June, there was de-stocking on part of all the dealers. Though we had large volume gains in this quarter, our sales were more towards the institutional side where our realizations are low. And at present the price difference in project sale and retail is ~5% Dealers have already starting stocking again. The condition post GST has improved a lot and we expect retail sales to improve.
- Prashant Kutty:** Just a follow up that now the demand that you are seeing is in the retail also?
- Kamlesh Patel:** It has already started in the month of July.
- Prashant Kutty:** So your realization would be adjusted in the future?
- Kamlesh Patel:** Yes definitely. It will improve.
- Prashant Kutty:** Sir my second question was that was there any impact on the marble business? Could you add something more on that?

- Kamlesh Patel:** Previously in marble, we had a license of the Government for ~21000 ton. The Government has freed it for everyone. Post that the imports that we used to do have reduced considerably. But we have increased our quartz production and this should help to maintain our ratio.
- Prashant Kutty:** So now our ratio would be maintained to 85-15 in the future?
- Himanshu Shah:** No. 13% will be from Marble and Quartz and 87% from tiles.
- Prashant Kutty:** And sir what is your CAPEX plan for this year?
- Kamlesh Patel:** This year we don't have a CAPEX plan because whatever we are planning in the South would be through internal accruals only. We shall have a 51% stake in that company. Our plant is to have minimum CAPEX through which we can increase our turnover.
- Prashant Kutty:** The 250 new products that were launched- were they all project related or retail related?
- Kamlesh Patel:** It was only retail base.
- Moderator:** Thank you. The next question is from Siddharth Rajpurohit from JHP Securities. Please go ahead.
- Siddharth Rajpurohit:** Thank you sir for disclosing the volume numbers in the presentation, sir my question was this time we have done sales more in project but still our operating margin has improved so much, so what's the reason?
- Kamlesh Patel:** Our product mix has changed in this quarter. Share of GVT has increased from 19% to 21% and our Double Charge has also increased from 22% to 24%. We have seen volume as well as value growth in these products. PVT has reduced over time. We will look to manufacture high value products where our operating margins are high. 75% of the PVT products go into project whereas 85% of our GVT goes into retail.
- Siddharth Rajpurohit:** Second question is regarding the value that has been given, the tiles break up is about 196 crores and total sales ~Rs. 220 crores. So what is the difference – is that 10% quartz or something?
- Kamlesh Patel:** It is Marble and quartz.
- Siddharth Rajpurohit:** Okay sir. Thank you.
- Operator:** Next question is from Sneha Talreja from Edelweiss. Please go ahead.

- Sneha Talreja:** Sir just wanted to understand the impact of this current input tax credit which we are going to get on margins?
- Himanshu Shah:** As we are going to get 9% input credit on gas, we shall be able to save ~Rs. 40 – 50 Lakhs per month in working capital As VAT credit would be available to us. Our additional cost would be around 2% or around 40 paisa per square foot which is very negligible. Currently natural gas is not under the purview of GST but it could come into GST soon.
- Sneha Talreja:** Okay got it sir. My second question is related to realization. We were talking a lot to Morbi players it looks like everyone has increased their price by 5 to 6%. What is our status now? Have we taken any kind of price increase?
- Kamlesh Patel:** We have not raised any prices this quarter. We have looked to maintain our prices. In the month of June, we did not see a lot of retail sales because of which we took a hit on the prices.
- Sneha Talreja:** That means our focus will be on volumes and not on price increase?
- Kamlesh Patel:** If our retail base will increase, our profit margin and realizations would also get better.
- Operator:** Thank you. The next question is from Sonali Salgonkar from BOB Capital Market. Please go ahead.
- Sonali Salgonkar:** What is the price differential between the unorganized players and organized players?
- Kamlesh Patel:** Before GST, the dealers used to stock products of the unorganised players where the pricing would have been very attractive for them. Now with the price of the products sold by the unorganised sector has increased, keeping a same playing level field, it would certainly help us to improve our profitability,
- Sonali Salgonkar:** Post GST, are we seeing reduction in the unorganised players and whether they are taking the 10 – 15% rise in prices:
- Kamlesh Patel:** At present whatever the difference was has reduced. Those players are facing huge difficulty in the domestic space and therefore are looking at the export market. The negotiation that used to happen with the dealers and with the institutional players will reduce a lot because of the brand position we have created in the market.
- Sonali Salgonkar:** So what you are in fact saying is that demand is coming to the organized players?
- Kamlesh Patel:** Right.

- Sonali Salgonkar:** Okay, sir my last question is about this input tax credit again so whatever differential is there, would you pass on?
- Kamlesh Patel:** No we won't pass on with the difference of 2%.
- Moderator:** Thank you. Sir the next question is from the line of Rajesh Kothari from Alpha Kiran Advisors. Please go ahead.
- Rajesh Kothari:** Sir there were two-three questions, first question is regarding our crystal plant. How much is our utilization now at Crystal?
- Kamlesh Patel:** 70% is the utilization.
- Rajesh Kothari:** Okay. So when will it be about 100%?
- Kamlesh Patel:** In this year, we have the target of utilization of about 85% to 95 % and next year it will be full 100% utilization.
- Rajesh Kothari:** So in 100% utilization what is the revenue there?
- Kamlesh Patel:** Revenues will be around 350 crores.
- Rajesh Kothari:** Last year how much was that the revenue from Crystal?
- Kamlesh Patel:** Last year it was Rs. 190 crores.
- Rajesh Kothari:** Second question is regarding the Quartz plant capacity where the expansion is completed from 2.64 lac sq. meter to 5.3 lac sq. meter?
- Kamlesh Patel:** Yes.
- Rajesh Kothari:** So how is the capacity utilization of that?
- Kamlesh Patel:** The plant is fully operative right now. Our target is that the revenues for this year from the new plant should be around Rs. 40 crores.
- Rajesh Kothari:** So this incremental revenue will add up in the overall numbers?
- Kamlesh Patel:** Yes.
- Rajesh Kothari:** What is the status of the plant in Andhra Pradesh where you were saying that revenue potential will be 150 crores?

- Kamlesh Patel:** We have already been allotted a 60 acre land for the project. By the end of August, the implementation process will start at the plant.
- Rajesh Kothari:** When will the plant we generating revenues?
- Kamlesh Patel:** From next year July and August 2018 it will be operational. Numbers will come in the next financial year that is FY 19.
- Rajesh Kothari:** So approximately can we add 140-150 crores addition in FY19?
- Kamlesh Patel:** Yes sir.
- Rajesh Kothari:** Sir the fourth thing I wanted to understand is that did we get a cost benefit or a reduction in pricing due to the rate reduction of natural gas?
- Himanshu Shah:** Natural gas is out of the purview of GST. We did not get any rebate on the 15% VAT that needs to be paid on Natural gas. A lot of people from our industry represented in front of the government and it resulted in getting a 9% credit on tax of natural gas. This is a very positive sign for our industry as our working capital cycle will reduce due to this benefit.
- Rajesh Kothari:** So in place of 15% credit you will getting around 9%?
- Himanshu Shah:** Before we use to get 11%, now 9% we would be getting.
- Rajesh Kothari:** Okay so basically it is a small loss instead of 11% you will be getting 9% of credit?
- Kamlesh Patel:** Yes.
- Rajesh Kothari:** Do you expect project housing to be very strong in Gujarat as there is a lot of affordable housing coming up and also are the elections coming in Gujarat?
- Kamlesh Patel:** By February 2018 we shall have our plant of 12X18 products through contract manufacturing. Secondly, we shall have all the products including soluble salt in South India as well as in the western region for projects related to affordable housing. We will also create volumes for Double Charge 600 X 600 products in the future.
- Rajesh Kothari:** So basically this all will be outsourced? Through tie-ups you are going to do it? Is that right?
- Kamlesh Patel:** Yes.
- Rajesh Kothari:** What can be the total increase in volumes in FY19 as this plant will come up in February?

- Kamlesh Patel:** Currently, through the government we are seeing 12% of our revenues. By the next year we are targeting a rise to around 25% from this segment. We would like to increase our retail to 40% as well by next year.
- Rajesh Kothari:** So basically, you are saying that 35% will go to the projects?
- Kamlesh Patel:** Yes. Projects will reduce slowly. We aim to have not more than 25% in project and 25% through Government Projects.
- Rajesh Kothari:** But in FY 17 what was your mix?
- Himanshu Shah:** 63% was through projects, and 37% was through retail.
- Rajesh Kothari:** So how much was of 63% was from the Government?
- Kamlesh Patel:** 11% to 12%.
- Rajesh Kothari:** So overall what do you think of your revenue mix for FY 18 and FY 19? what are the revenue estimates?
- Kamlesh Patel:** We expect 13% to 15% growth on net revenues next year
- Rajesh Kothari:** And in the next year that is FY19?
- Kamlesh Patel:** It will be around 15%.
- Rajesh Kothari:** And what would be your assumptions for margins?
- Kamlesh Patel:** The margins in this quarter were around 12% so it will be roughly around 12.5 to 13% by the end of this financial year which we should maintain.
- Rajesh Kothari:** And in next year what do you think of the margins?
- Kamlesh Patel:** There will be overall improvement through implementation of GST and we margins improving in the future. Currently we are looking to maintain our 13% margins and going ahead we should be making ~15% margins in the next 4 - 5 years.
- Rajesh Kothari:** Don't you feel that which unorganised players going out of the market, we will be able to grow much faster from FY19?

- Himanshu Shah:** It will be very premature to comment on our growth as its been only one month post GST. We do not know the future 3 -4 year plans for any of the Morbi players also. All we can say is that we expect the organised players to grow faster and benefit more through GST..
- Rajesh Kothari:** Okay. How much would be the advertisement spending In the current year?
- Kamlesh Patel:** Already we have done 4 crores in the Q1.For the year we expect branding and advertisement cost to be 2.25% - 2.5% of the revenues.
- Moderator:** Thank you. Next question is from Aditya Solanki from Dalal & Broacha. Please go ahead.
- Aditya Solanki:** After expanding to over 200 stores, will we be able to maintain our EBITDA Margins of 13% as rent and other expenses would go up?
- Kamlesh Patel:** Last year we spent ~Rs. 16 crores on advertisement and branding. This year we have increase our budget to ~Rs. 24 crores. With change in product mix and increase in the retail sales where margins are higher, we should be able to even increase our margins going ahead. On an average we are currently doing business of Rs. 8 Lakhs per month which is also going to increase. With high value products with high margins going into retail we expect the margins to increase.
- Aditya Solanki:** Perfect sir. Thank you so much sir. Thank you.
- Kamlesh Patel:** Thank you, thank you all for participating in this conference call.
- Moderator:** Thank you members of management. Ladies and gentlemen, on behalf of Asian Granito India Ltd. that conclude today's conference call. Thank you all for joining us.