



“Asian Granito India Limited Q4 FY-17 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to Q4 FY 17 Earnings Conference Call of Asian Granito India Limited. This conference call may contain forward looking statements about the company which are based on beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing ‘*’ then ‘0’ on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Patel – Promoter, Chairman and Managing Director of Asian Granito India Ltd. Thank you and over to you sir.

Kamlesh Patel: Good afternoon, I welcome you all to the Q4 FY 17 Earnings conference call of Asian Granito India Ltd. We have with us today Mr. Himanshu Shah- Finance Head.2017 was very good for us. Quarterly year-on-year growth has been 10.5% and the volume growth is about 15% and for the year our growth is 7.5% and volume growth is of 10%.

The company has implemented a new strategy of improving our product mix. After demonetization we have focused on double charge and GVT which are high value products. We have even increased our market share post demonetization. The company has been focusing to increase its retail sales. We had targeted 120 showrooms but have achieved 144 showrooms and completed it. Due to this our company’s retail base which was 35% has grown above 37%.

Last year, the company declared total dividend of Rs 1.3 per share. The GST of 28% which will be implemented from July will be good news for us because we were always paying 28-30% taxes 12.5% excise, 2% CST and 15% VAT. The organized players will benefit from GST and companies having brand recall value will benefit the most. The exports will also increase in the coming years. There is no threat from China also as anti-dumping duty of \$1.87 has been levied by the government, thereby restricting small dealers to import.

The Government projects which normally are at 15% have increased to 17-18%. After demonetization, we have got a lot of Government projects that had low value products which were outsourced from Morbi, because of which our EBITDA margins got impacted this quarter. This year our revenues were Rs. 1,150 crores and next year we expect that growth would be 12-13%. EBITDA margins would also be maintained in the range of 13 to 15%. Due to GST we expect the industry to consolidate and we may look for organic as well as inorganic growth in order to minimize our capex.

The company has taken a decision to manufacture GVT products in south Indian Andhra Pradesh. For that we have a whole team surveying about which products shall be manufactured there so that the company can make optimum margins and improve its market share. By 2020-21 the target of reaching turnover of Rs. 2000 crores We have concentrated a lot on the product

mix, making sure the low value products are taken up by Morbi and we will concentrate on manufacturing of high value products.

Recently, we have started the parking tiles division in which we have got good response. Two months back, we launched our new product in quartz segment at Udaipur where we have organized dealers meet, over 120 dealers were present. We launched around 50 different products in 20mm and 30mm thickness. We got a great response from dealers in the meet. EBITDA margin for this product should be in the range of 30% - 33% At present, we have exports orders worth Rs.8 to 10 crores and have also seen good demand of the product in domestic metropolitan cities

In the coming year, we would like to complete 200 showrooms. We would want to increase by retail segment to around 50% in the coming years, 25% from Governmental projects and the rest through Institutional. We are working on different strategies to reduce our Working Capital Cycle which should also come down in coming years. The company hopes to maintain margins in the range of 13-15% for the next year. With this, we will be happy to take all your questions. Thankyou.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: My question is regarding the capacity addition, so your current capacity is 30 MSM and how much you're planning to add through JV root and other root from Morbi post GST and how much CAPEX you're planning for next two years.

Himanshu Shah: Our standalone capacity is 85,000 per day sq. meter and 15,000 is outsourced adding our total capacity to 1,00,000 sq. meter per day. Currently we are utilizing 65 to 70% utilization. We have converted our PVT line into GVT and from now onwards we will outsource soluble salt products. Our first target is optimum utilization of all our plants.

Post implementation of GST, we shall see consolidation taking place in the industry. With new opportunities coming in, we can target new JV's in Morbi, hence this year our capex may remain minimal

Anshuman Atri: Maintenance CAPEX will be around 30-40 crores?

- Kamlesh Patel:** No it will be not that much. Normally our Maintenance CAPEX is around Rs. 8 to 9 crores for the full year.
- AnshumanAtri:** This year 12-13% revenue growth and 13 to 15% EBITDA margins has been targeted?
- Kamlesh Patel:** Yes. That's right.
- Anshuman Atri:** What do you think about your debt reduction for the next few years?
- Kamlesh Patel:** Every year 17 to 18 crores would be repaid as part of the repayment which would gradually reduce from our long terms borrowings.
- Anshuman Atri:** Okay and thank you. And all the best.
- Moderator:** Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Funds.
- Prashant Kutty:** Sir you said that in south one new capacity through JV is coming for tiles of around 10,000 sq. meter per day capacity would be there or you have just scrapped it down recently?
- Kamlesh Patel:** No, we are currently doing a survey of the same. We are first identifying which product to be manufactured there in South so that maximum advantage can be taken. It also depends on the raw material requirements and its sourcing. We are planning a JV in south for GVT products with 51% stake with a total investment of Rs. 35-40 crs through internal accruals. This CAPEX will come in next year.
- Prashant Kutty:** Okay, so it will come in 2019 and not 2018?
- Kamlesh Patel:** Yes it will be on 2019.
- Prashant Kutty:** Okay in 2018 there will be nothing?
- Kamlesh Patel:** Only the land for construction and the LC which we have done to buy the machinery. The LC remains for three years.
- Prashant Kutty:** You said that you were going to add some 3,000 sq. meter in the quartz plant in 2018? Has that been added or what?
- Kamlesh Patel:** We have already done expansion of the third line of quartz in April and the response has been good. The management has decided to do some observation for the next 3 months, after which, we might add another 1600 sq meter line as brownfield expansion and do some debottlenecking at our existing line with less CAPEX so that it can come in the market quickly. Current capacity of quartz post expansion is around 1600 sq meter.

- Prashant Kutty:** So when can we expect it launch?
- Kamlesh Patel:** The new line has started in April only. We will wait for some months in order to analysis demand scenario in domestic and export market for our new quartz product. If demand is good than only we will plan to add another line in quartz.
- Prashant Kutty:** Till today you will have about 1,000 sq. meter capacity right for quartz?
- Kamlesh Patel:** At present we have about total 1,600 sq. meter.
- Prashant Kutty:** Okay 1,600 you have till now and you want to add more 3,000?
- Kamlesh Patel:** And we can more add 1600 (debotlenecking and brown field expansion) to our existing capacity totaling to 3,200
- Prashant Kutty:** Sir my next one is about the margins, that your margins can grow up to 13 to 15%, but if you see our this quarters margins we have achieved is 10% and for the whole year it was around 11.5% so I wanted to know that when we are talking about 13 to 15% in which year this target will be achieved, it will be for the next year or next two to three years target, and how will that be achieved? What do you think will drive that margin?
- Kamlesh Patel:** Our quartz line that started recently have the highest EBITDA margins from which we shall get a turnover of 60 crores.
- Himanshu Shah:** The new line of quartz which we launched in April will create additional revenues of Rs. 50-60 crores. Over 80% of the product will be exported to the US as the demand for 30mm thickness quartz is huge over there. We expect the margins to be around 30% for the product. In the last quarter we have been able to improve our product mix wherein we have expanded through high sales of GVT and Double Charge Products. Post demonetization we have increased our market share, but have had to compromise on the margin front for some time. We have grown QoQ ~48% in the GVT segment and ~67% in the Double Charge Segment in the last quarter. We expect the Margins to improve going ahead on back of improving our product mix and increased retail sales.
- Prashant Kutty:** What is our current mix of revenues?
- Himanshu Shah:** 19% is GVT, Double Charge is almost 22% in the total tiles turnover. And PVT that is polished vitrified tile has come down to 23% and the Ceramics is 36%.
- Prashant Kutty:** Fine sir. Thank you. I will come back in the queue.

- Moderator:** Thank you. The next question is from the line of Manish Oswal from Nirmal Bang Securities. Please go ahead.
- Manish Oswal:** Most of my questions have been answered, only one question we have continuously adding dealer network in the last two years, last year we added 800, in FY16 we added 500. Currently we have 5,300 so how do you see the pace of the dealer network addition in FY 18 or FY 19?
- Kamlesh Patel:** At present our touch points are about 5,300 and about 970 dealers. Our target is that this year we will reach to 1200 dealers.
- Manish Oswal:** By March 2018 we will reach 1,200.
- Kamlesh Patel:** Yes 1,200 by March 2018.
- Manish Oswal:** And secondly sir what will be our showroom target this year?
- Kamlesh Patel:** By 31st March we will complete 200 showrooms.
- Manish Oswal:** In this quarterly result, the Employee cost has increased - it is normal wage increase or anything exceptional.
- Kamlesh Patel:** In this quarter, we have already added a new plant in the Quartz segment. It is a high-end product for which we need to have efficient labour as a lot of architect base work is also required. We've also done some hiring for our international markets. All this is done for strengthening our base.
- Manish Oswal:** Going forwards our company should get the benefit of that sir?
- Kamlesh Patel:** Definitely, from next year we would get it.
- Manish Oswal:** Okay sir and for the full year what should be the tax rate sir?
- Kamlesh Patel:** Normal tax rate is 30% sir.
- Moderator:** Thank you, The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** Sir, between your standalone and consolidated, the bigger difference is from Crystal right?
- Kamlesh Patel:** Right
- Pritesh Chheda:** So Crystal if I just do the difference between standalone and consolidated it looks like an 100 crores revenues and about 44 crores EBITDA, right? So it's about 40 plus margin on that product

which is that 1 X 1 meter, the bigger product, so first I want to know what is the capacity utilization of crystal and this particular product line which is also one of the drivers for you for growth or the incremental product line whatever you're talking about from margin perspective - will it be the part of crystal and what will be your thoughts on the margins there?

Himanshu Shah

In Crystal, we have capacity of 12,000 sq. meter of Double Charge metre product. Last year we had capacity utilization of 65-70% at Crystal as our plant was fully functional throughout the year. We started the commercial production from Crystal only from August 2016. This year we expect around 80-85% utilization of this plant. We will mainly focus on high value products from Crystal especially 1000*1000 product. The metre by metre product has higher margins and realizations than other products. Currently 40% of Crystal sales are through AGL Brand, but in the 1000*1000 segment, everything is through the brand of AGL.

Pritesh Chheda:

So your incremental growth which happened last year also and even this year, most of it has to come from crystal?

Himanshu Shah:

Right

Himanshu Shah

Our capacity utilization in my own manufacturing is also around 65-70%. With increase in utilization here, we will see increase in revenues.

Pritesh Chheda:

There you have ceramics and GVT right?

Kamlesh Patel:

Ceramics, PVT, GVT and Quartz. The quartz product that we have launched just now, will add additional revenue of Rs.50 crores

Pritesh Chheda:

Quartz was not there in FY 17?

Kamlesh Patel:

No. The new product which now has 1,600 capacity had 800 earlier

Pritesh Chheda:

But what was the quartz revenue in FY 17?

Kamlesh Patel:

That was around Rs.40 crores.

Pritesh Chheda:

And lastly on your 2000 crores revenue which you say that's three-year target, if you could break it, you know how much in that you have assumed quartz, how much would be south business and how much would be crystal and how much would be your Standalone?

Kamlesh Patel:

Currently we have a turnover of Rs. 1,150 crs at our own Plant through increase in utilization – Rs.150 crs, another Rs. 150 crs. from the existing Crystal Plant, Rs. 60 crs. from the new Quartz

line, around Rs. 150 crs from a JV in south India, around 200 crs from additional expansion in Crystal and the rest would be outsourced or partnered through JV in Morbi.

- Pritesh Chheda:** And there would no CAPEX barring south?
- Kamlesh Patel:** There will be some CAPEX for further expansion in Crystal also.
- Pritesh Chheda:** Future? Okay so there are expansions in Crystal and South? Total CAPEX number if you can give?
- Himanshu Shah:** It will be around 100 crores.
- Moderator:** Thank you. The next question is from the line of Indrajit Agarwal from Goldman Sachs. Please go ahead.
- Indrajit Agarwal:** Sir I wanted to know about your industry outlook, how do you see the industry growing in terms of volume and pricing in FY 18 and FY 19 for each of this segments Ceramics, PVT and GVT?
- Kamlesh Patel:** Earlier the industry was based on ceramics. Then there was a revolution of vitrified and double charge tiles across the industry and now people have shifted to large format tiles including GVT. GVT growth is above 30% Double Charge is around 15%. The growth of the Ceramic and Soluble Salt Industry would be 5%-10%. In Morbi around 50 new Plants are coming up in the GVT and Double Charge space.
- Indrajit Agarwal:** What is the pricing and will this sector have pricing power?
- Kamlesh Patel:** With the industry developing, with technology up-gradation in machines, we have seen reduction in costs. Prices of Soluble Salt have reduced from Rs. 75 per square foot in 2004 to Rs. 20 currently. But there have been reduction in rejections as quality of raw material has improved, technology has improved and markets have also expanded. Export market which was around Rs. 2,000 crores has gone up to Rs. 5,000 crores. It is expected to reach higher to around Rs. 8,000 crs as well.
- Moderator:** The next question is from the line of Jinal Fofalia from ALFAccurate advisors. Please go ahead.
- Jinal Fofalia:** Sir what you said in terms of revenue for GVT, Double Charge, PVT and ceramics in Q4 FY 17 - how similar was it in Q4 FY 16?
- Kamlesh Patel:** For the full year, we have increased our GVT mix and reduced or Ceramic mix. We had around 16% of GVT Sales last year which has increased now.
- Jinal Fofalia:** And what was the similar number in Q3 FY 17, what was the product mix in Q3 FY 17?

- Kamlesh Patel:** That I will have to look up. I don't have the numbers right now, so that I cannot comment on. but I can just give you separately through mail.
- Jinal Fofalia:** FY 17 was a kind of a challenging year, because operating profit margin has not increase that much despite significant improvement in product mix. Why there is no improvement in operating margins and what do you think of operating margin in FY 18? You have mentioned that Gas cost is one significant cost competitive advantage last year what was the base cost and going forward how will it be?
- Kamlesh Patel:** As told earlier, for increasing our market share of high value products, where we grew by 47% and 68% in GVT and Double charge respectively, we compromised a bit on the margin front. Once GST would be implemented, we don't see any further reduction in prices of these products. We expect higher volumes of these high-end products with better margins. In the Double Charge and Metre by Metre product we make around 20% margins and in the new quartz line we make around 30% Margins.
- Secondly, we will stand to gain benefit from the low cost gas we get. There will not be any major change in the prices of gas that we get.
- Jinal Fofalia:** So basically you want to say that in the fourth quarter more discounting was done to gain the market share because of that the margins are low?
- Kamlesh Patel:** Right Absolutely.
- Jinal Fofalia:** So if we total the promotion and discount adding that up year on year what will be the percentage revenue compared to in the third quarter? If you can you give some comparison data?
- Kamlesh Patel:** 1.5% of the expense is spent towards branding and samples, sales promotions, In exact amount it would be around Rs. 16 crs.
- Himanshu Shah:** Earlier it was Rs.8 crores which has increased to 15 crores and in the coming years we will increase it to 2 to 2.5% because after the implementation of GST our branding would increase.
- Jinal Fofalia:** So the maximum has happen in fourth quarter.
- Kamlesh Patel:** No in quarter three and quarter four we have launched new products, we have done ACETech exhibitions and the sales promotion activity done for GVT and double charge products have increased our brand expenditure. We have given dealer discounts also.
- Moderator:** The next question is from the line of Basudev Banerjee from Antique Finance. Please go ahead.

- Basudev Banerjee:** Recently we have interacted with the organized players, will branded players benefit from the opportunity of low cost housing? So what is your point of view?
- Kamlesh Patel:** For Governmental projects, a lot of product norms and technical parameters need to be followed. It will be very difficult for the un-organised players to have all these approvals in place and therefore we felt that the organised sector will get a big boost from the affordable housing projects.
- Certain products like 60 X 60 and 300 X 600 have been defined for affordable housing. These products can be outsourced by the organised players from Morbi and sold in this low-cost housing projects. It is sure that the organised players will benefit from Affordable Housing.
- Basudev Banerjee:** So basically sir without creating any gross block by outsourcing the cheaper end of the market, we will still maintain our EBITDA Margins?
- Kamlesh Patel:** Definitely. we will deploy a whole team in Morbi where in new designs, innovation will take place and supply shall also take place from there only.
- Moderator:** The next question is from the line of Kamlesh Kotak from Asian Markets. Please go ahead.
- Kamlesh Kotak:** In the balance sheet the debt and inventory has increased a lot this year compared to last year, 300 crores of trade receivables 273 crores of inventory so how you see going forward how much that can be? And how will it increase?
- Himanshu Shah:** Due to demonetization, there has been some distress, plus while selling our high end product which has helped us gain market share, the debtor's days have increased by 10-15 days. Correspondingly, our creditors mostly from Morbi have also increased. The management has internally decided to make sure that going ahead we reduce our working capital cycle, especially through reduction in collection time.
- Kamlesh Patel:** Through increase in retail also, which should increase from 144 showrooms to 200 showrooms, we shall see reduction in working capital cycle.
- Kamlesh Kotak:** And inventories have also increased so that also will be normalized?
- Kamlesh Patel:** Yes our inventory days has increased to 86, days. Our main target is to focus on high value products which will be manufactured in-house and sell them through the orders that we receive.
- Kamlesh Kotak:** And what do you think of May and April demand, do you think there will be an GST disruption in the demand of Q1 this year?

- Kamlesh Patel:** In April month also our growth rate was about 10%, and this month has also been good for us, but in June we may get impacted due to GST.
- Moderator:** Thank you. The next question is from the line of Siddharth from JHP Securities. Please go ahead.
- Siddharth:** Sir can you give me the volume numbers for the last three years?
- Kamlesh Patel:** Definitely we can give you separately We will mail it to you.
- Siddharth:** Sir can you tell me the increase of the Government share from last year to this year?
- Kamlesh Patel:** Earlier it was 8% now it is at 15%
- Siddharth:** So the payment cycle is more in that? Is the payment cycle longer?
- Kamlesh Patel:** The payment cycle is not big in government projects but it is more in institutional projects.
- Siddharth:** Okay fine. I will comeback in the queue.
- Moderator:** The next question is from the line of Deepak Madhavdas from LSA Securities. Please go ahead.
- Deepak Madhavdas:** You have an order book of 9 crores, so 9 crores is only for the quartz?
- Kamlesh Patel:** This is only for quartz. We have some orders for the 20mm thickness and some in the 30mm thickness.
- Deepak Madhavdas:** What will be the total order book position?
- Kamlesh Patel:** All the production is done from the perspective for the international market only, we have received approvals and taken orders also.
- Deepak Madhavdas:** And in the revenue, that comes how much is export and how much is for the domestic market approximately?
- Kamlesh Patel:** The revenue from exports is around 7%
- Deepak Madhavdas:** Okay. So the rest 93% is domestic?
- Kamlesh Patel:** Yes.
- Deepak Madhavdas:** And sir the exports are normally quartz or we export other products also?

- Kamlesh Patel:** Quartz has just started now recently.
- Himanshu Shah:** Tiles are exported. We used to export only tiles. All of the 7% exports were tiles only. With new exports of quartz, our exports can become 10%.
- Deepak Madhavdas:** One last question, how much we will be benefited from GST?
- Himanshu Shah:** In GST I have already mentioned that 28% will be the rate. The current tax structure is around 30%, so there will be no negative impact but will be positive,
- Moderator:** The next question is from the line of Niraj Savai from Inga Capital. Please go ahead.
- Niraj Savai:** Just wanted to understand the CAPEX plan for the quartz segment which is your high margin business, since you're targeting about 60 crores for FY18, so will be the CAPEX behind quartz segment?
- Kamlesh Patel:** Now the CAPEX what we have done is around 20 crores, internal accrual is about 11-12 crores is through LC and rest 8 crores is from internal accruals. And new CAPEX that we are thinking is after August. Because we have to wait for this product for three months in the market and then we have to think of it later.
- Niraj Savai:** Now how much will be our Quartz capacity?
- Kamlesh Patel:** It is about 1,600 sq. meters
- Moderator:** Okay. Thank you. The next question is from the line of Nehal Shah from ICICI Securities. Please go ahead.
- Nehal Shah:** Sir one thing which I want to understand is that we have sold GVT and Double Charges by scaling down the prices to get established in the market, generally what happen is that, like we sell it cheap and for dealers they get accustomed to it so would it be difficult now to increase the prices and comeback to normalcy?
- Kamlesh Patel:** The maximum work that we have done is not for our retail counter but in projects. We have taken entry into some of these governmental projects. Projects which are coming in next two to three years we have booked that.
- Nehal Shah:** So basically the orders that we have taken are for the next few years?
- Kamlesh Patel:** We have approved that product that will go in quantum because of that we have the price effect.

- Moderator:** Thank you. The next question is from the line of Pratik Chaudhary individual investor. Please go ahead.
- Pratik Chaudhary:** Sir I wanted to know about the difference in the Breton and Chinese technology? I want to understand from a quality perspective what are the types of design we can get from these technologies and pricing vice versa what's the difference in Breton and our technology?
- Kamlesh Patel:** If you see this technology worldwide, US and Europe are the biggest markets for that. Breton technology in India has only one plant and it has a huge CAPEX. Modifying that in China at a low cost of Breton Technology and they have established a lot of plants there and from there only it exports to US, Australia and Europe. We have adopted the same technology and at present our CAPEX is 20 crores as it was a brownfield expansion. So our CAPEX is 20 crores and in material that Breton technology and our product is of the same color and so there will be no difference in the product utility.
- Pratik Chaudhary:** And there is no difference in the quality?
- Kamlesh Patel:** No there is no difference in quality.
- Pratik Chaudhary:** And in design?
- Kamlesh Patel:** Basis fundamental cost of this product is about Rs. 300 to 400 per sq. feet.
- Pratik Chaudhary:** Which product sir?
- Kamlesh Patel:** The quartz product that is there is about Rs. 300 to 400 per square feet.
- Pratik Chaudhary:** What is the difference in our and Breton Technology price, per sq. feet?
- Kamlesh Patel:** At present the difference is about 15 to 20% in price.
- Pratik Chaudhary:** Our product is 15% to 20% cheaper?
- Kamlesh Patel:** Yes.
- Pratik Chaudhary:** And can we match them in design like in India there are only one type of Breton Plant. Market is same for both of you, you also supply to US they also supply to U.S.
- Kamlesh Patel:** The dealer is separate even in international and domestic markets. It all depends on distributors., Our product has a separate identity, our color combination and design. So whenever the customer demands it we will give the product

- Pratik Chaudhary:** Okay, sir if we have to do change from the R&D side, color combination then what we will have to do because for Breton they are supported in terms of new design and R&D so how do we do it?
- Kamlesh Patel:** Generally technology innovation worldwide may it be tiles industry or quartz industry or marble industry it is only European countries which do R&D. We have also done a lot of R&D and have introduced over 50 designs.
- Pratik Chaudhary:** One last question, Sir these 40 crores revenue in quartz in FY 17, what was the capacity utilization if we see through quantity how much we have sold per sq. meter or per sq. feet?
- Himanshu Shah:** 85% to 90% is our capacity utilization in quartz.
- Moderator:** Thank you. I would now like to hand over back the floor to Management for closing comments.
- Kamlesh Patel:** Thank you to all that you have attended this conference call. Thank you All
- Moderator:** Thank you. On behalf of Asian Granito India Ltd. That concludes today's conference call. Thank you for joining us and you may now disconnect your lines.