

February 05, 2024

BSE Limited
P.J. Towers
Dalal Street
Mumbai - 400 001

The National Stock Exchange of India Limited
Exchange Plaza
Bandra Kurla Complex
Bandra (E)
Mumbai - 400 051

Dear Sir,

Re.: Transcript of Conference Call

In continuation of our letter dated January 31, 2024, informing about the uploading of the audio recording of the Conference Call held on January 31, 2024, we enclose herewith transcript of the said Conference Call, in compliance of the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

The above said transcript has been uploaded at the Company's website www.kajariaceramics.com

Kindly take the above on your records.

Thanking you,

For Kajaria Ceramics Limited

R.C. Rawat
COO (A&T) & Company Secretary

Encl.: As above

Kajaria Ceramics Limited

Corporate Office: J1/B1 (Extn.), Mohan Co - op Industrial Estate, Mathura Road, New Delhi - 110044, **Ph.:** +91-11-26946409 | **Fax:** +91-11- 26946407

Regd Office: SF-11, Second Floor, JMD Regent Plaza, Mehrauli Gurgaon Road, Village Sikanderpur Ghosi, Gurgaon-122001, Haryana, **Ph.:** +91-0124-4081281

CIN No.: L26924HR1985PLC056150, **E-mail:** info@kajariaceramics.com | **Web.:** www.kajariaceramics.com



“Kajaria Ceramics Limited
Q3 FY24 Earnings Conference Call”

January 31, 2024



MANAGEMENT: **MR. ASHOK KAJARIA – CHAIRMAN AND MANAGING DIRECTOR – KAJARIA CERAMICS LIMITED**
MR. CHETAN KAJARIA – JOINT MANAGING DIRECTOR – KAJARIA CERAMICS LIMITED
MR. RISHI KAJARIA – JOINT MANAGING DIRECTOR – KAJARIA CERAMICS LIMITED
MR. SANJEEV AGARWAL – CHIEF FINANCIAL OFFICER – KAJARIA CERAMICS LIMITED

MODERATOR: **MR. ARUN BAID – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY24 Earnings Conference Call of Kajaria Ceramics Limited hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference to Mr. Arun Baid. Thank you, and over to you, sir.

Arun Baid: Good evening, ladies and gentlemen. On behalf of ICICI Securities, I welcome you all to the Q3 FY24 post con call result of Kajaria Ceramics. From the management side, we have Mr. Ashok Kajaria, CMD; Mr. Chetan Kajaria; JMD; Mr. Rishi Kajaria, JMD; and Mr. Sanjeev, CFO. Now I hand over the call to Ashok ji for his opening remarks, post which we'll have the Q&A. Over to you, Ashok ji.

Ashok Kajaria: Thank you, Arun. Very good evening to everyone. It gives me great pleasure to welcome you to the quarter three '24 earnings conference call of Kajaria Ceramics Limited. Joining me on this conference call are my sons Chetan and Rishi; my grandson Kartik Kajaria; our CFO, Sanjeev; Nehal Shah, DVP, Strategy; and Pallavi Bhalla, GM, Investor Relations.

Considering the privilege and sustained demand changes in the tile industry, the tile volumes continue to remain muted in quarter three '24 as well. Our volumes executed a modest year-to-year growth of 6%, reaching 27.09 million square meters. Even though Gujarat gas price increased by 17% since August '23, the Morbi manufacturers have not taken any price hike.

Despite the existing challenges, we maintained a positive outlook for the tile industries' demand in FY25. Considering the likely rub-off of strong real estate demand to drive improvement in offtake for tiles in financial year '25, we are confident of achieving better than industry growth going forward, driven by our extensive and relentless branding and distribution efforts.

The consolidated revenue for the quarter amounted to INR1,152 crores, indicating a 6% increase compared to the corresponding period last year. The EBITDA margin for quarter three stood at 15.52%, representing an increase of 332 basis points from the same quarter previous year.

The progress of our previously announced Nepal project is slightly delayed due to heavy rainfall in the last quarter. We now anticipate commissioning of 5.1 million square meters of glazed vitrified in ceramic capacity by June '24.

On the export front, India's tile exports have experienced a remarkable 49% growth, reaching more than INR12,300 crores from April '23 to October '23 compared to INR8,278 crores in the same period in the previous year. Our exports have slowed down post October '23, with the issues prevalent in the Suez Canal, leading to uncertainty in the region and sudden spurt in an

ocean freight. Once the situation eases in the Suez Canal, we hope the growth momentum and pickup.

Now for this quarter's financial performance.

In quarter three '24, the company achieved a 6% year-to-year increase in consolidated revenue from operations, reaching INR1,152 crores compared to INR1,091 crores in quarter three, '23. Tile segment grew by 3% year-to-year growth in revenue, reaching INR1,013 crores compared to INR984 crores in quarter three '23.

Bathware segment registered a 16% growth in revenue, reaching INR92 crores compared to INR79 crores in quarter three '23. The plywood revenue increased by 81% during quarter three '24 to INR34 crores as compared to INR19 crores in quarter three '23. Revenue from adhesive grew by 42% to INR13 crores in quarter three '24 as compared to INR9 crores in quarter three '23.

PAT for the quarter grew by 40% to INR104 crores in quarter three '24 as compared to INR74 crores in quarter three '23. As of 31st December '23, the working capital days increased to 60 days from 53 days as of 30th of September.

With this, I take this opportunity of thanking you for joining us today. Over to you, Arun, for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Pranav Mehta from Equirus Capital.

Pranav Mehta: Sir, I wanted to understand your strategy on the tile adhesive business. So basically, what I understand is that even Pidilite is seeing a very fast growth coming in from the tile adhesive business up there. So just wanted to understand how you are going forward into this business?

Ashok Kajaria: See, Pidilite is a very large company we can't compare Kajaria with Pidilite on that front as far as adhesives are concerned. Adhesives, we have just started about a year back. And now with Kartik coming in, we have handed over this division to him, so we are trying to increase the business. This year, we should be ending up with about INR50 crores.

Next year, we are targeting anywhere between INR75 crores to INR80 crores. And we hope this business should grow to INR200 crores in the next two, three years, that's what we are looking at because with the increasing users of tiles and the bigger size of tiles, adhesive market is growing bigger and bigger over a period of time.

Pranav Mehta: Sure, sir. And sir, my next question was related to your acquisition in plywood. So basically, now we are looking for an acquisition somewhere in North India. So, if you can throw some light on how you are going to move ahead in this business now that we have been doing kind of a trading business for three to -- or last two, five years. And what is the strategy here going forward?

Chetan Kajaria: Hi Pranav, it's Chetan here, can you hear me?

- Pranav Mehta:** Yes, sir.
- Chetan Kajaria:** Okay, sir. Last year with turnover of INR77 crores in the plywood business. This year, it should end at INR100 crores, and the next year target is INR150 crores. The main reason for the acquisition of the plywood plant in North India, we were facing lot of issues in supplies and quality because we were outsourcing a lot of small-small units in North and Central India. But now with the acquisition happening, there's a lot of stability in terms of quality and supply and we're very confident of hitting INR150 crores mark in this coming financial year '24-'25.
- Pranav Mehta:** Okay, sir. And sir, anything you're looking at, let's say, in laminates as well? Or as of now, you'll be respecting this acquisition towards plywood only?
- Chetan Kajaria:** This acquisition is only towards plywood and blockboards and doors. Laminates, we'll continue to trade and outsource only as of now.
- Moderator:** And the next question is from the line of Rahul Agarwal from InCred Equities.
- Rahul Agarwal:** Ashok ji, just first question on the capex. I think you announced a couple of plants into Morbi. I just wanted to understand this a bit more clearly. The 6-MSM we're talking about in KTPL is a functional plant. And typically, for a similar size, are we getting any benefits in terms of we doing it versus buying it?
- Rishi Kajaria:** Hi, Rahul, this is Rishi Kajaria. So yes, this plant is operational. We saw it both in the closed state and then we got it opened and lines were running. And it's producing a very good cost. And going forward into expanding our own plant in Morbi, we thought better to acquire this plant. We were getting a better volume, a more higher square meter at a very good cost.
- Rahul Agarwal:** So, this should add to our production starting immediately, is it?
- Rishi Kajaria:** Starting, April. It will take two months. There's some work to be done, some machinery to be upgraded. A very small cost. It will take about two months. And April, we're just trying to start sales from this plant.
- Rahul Agarwal:** Okay. Perfect. And secondly, on the KUPL, the INR30 crores land buying, can you give some more details? This is for a large format tiles, right?
- Rishi Kajaria:** Sure. So going forward, some – looking export market and domestic market, we want to make some big tiles, which we're not able to make in the existing plants. So, for that, we bought this piece of land and in a target of 15 to 18 months, we plan to put up a factory for the slabs here.
- Both for exports and Domestic market which is going to come up in India. So, for that, we are making this. We are buying the land because we're very bullish on the Indian market going forward. So, unless we have the land, you can't put a factory. So, we're buying the land right now for future expansion.
- Rahul Agarwal:** So, any number here in terms of capacity you're looking for, any capex numbers?

- Rishi Kajaria:** No, nothing right now. Let us get the land first. In the next three, four months, we'll make a paper and then we'll probably in the next meeting, we'll present all the details.
- Rahul Agarwal:** Okay. Got it. So, because it was about INR370 crores is what we were intending to spend this year, I think with the Morbi capex of INR80 crores, this number should go up. Could you give some kind of sense on capex for this year and next year, please?
- Ashok Kajaria:** See, this year capex, we have already said that's about INR370 crores. And next year, we will work out and share it at the next meeting after the fourth quarter.
- Rahul Agarwal:** Okay. So, this current investment of INR50 crores and INR30 crores for the new plant is not part of the 320, right?
- Rishi Kajaria:** No, no, no, not yet. It's not capex it's an acquisition. So, I think the INR50 crores in acquisition capex...
- Ashok Kajaria:** It's not part of it. It's an additional thing.
- Rahul Agarwal:** Got it. And Ashok Ji, what was the average gas price for North, South, West, please, for the quarter? And any changes today?
- Ashok Kajaria:** No, no changes. It is INR39 on an average for quarter three. And hopefully, it should continue at the same level in quarter 4.
- Rahul Agarwal:** Could you give a breakup if possible, North, South, West?
- Ashok Kajaria:** Sure, I can. Yes. North was 41, South was 42, West was 34 and average is 39.
- Rahul Agarwal:** Got it, sir. And last, just to close, just some outlook on how do you see the full year like in terms of growth and next year, in terms of volume, pricing or margins, whatever you want to share, please?
- Ashok Kajaria:** Since we have already shared in presentation, we will grow 5% to 6% more than the industry, which we have been doing also for all these years if you look at it. And as far the margin is concerned, this year, we talked about 14% to 16%. We are at the -- more or less at the upper end. We are about 15.5% plus for the nine months as usually maintained. And I think next year, if we do well, if things are okay, it should be anywhere between 15% to 17% because that 14% thing is out.
- Rahul Agarwal:** Okay. Got it.
- Moderator:** And our next question is from the line of Ritesh Shah from Investec.
- Ritesh Shah:** First on the North Sea thing that you indicated. So, does it have any impact on the gas that you procure? I think we have very attractive long-term pricing. So on a landed basis, is it likely to impact the cost curve? Or are we already have; how should we understand that?

- Ashok Kajaria:** No. Long-term gas is still expensive because it is based on 3 months average of brent/ and it's still expensive. When I'm giving you all these numbers, these are fuel cost: average cost of gas, biofuel or all other components. it's not a gas cost.
- Ritesh Shah:** Yes, fuel cost. So basically, the Red Sea would not impact. Basically, you indicated blended INR39, it is likely to remain at similar levels, this takes into account the potential risk on back of the ongoing disruption?
- Ashok Kajaria:** No, no, nothing has changed. Ongoing disruption if you see this year for the last two months -- 2.5 months now, this problem at the Red Sea. So, nothing has changed. Gas price is more or less on the same level.
- Ritesh Shah:** Perfect. And sir, you indicated since October, industry exports have actually reduced. So, in this scenario, are the Morbi guys putting material locally? Or have you opted to operate at lower utilization levels?
- Ashok Kajaria:** Question for me to answer because Morbi will know better, but some material has to come locally and some from production. The exact information will come from them. I'm not the right guy, but that's what market intelligence says...
- Ritesh Shah:** Sure. And sir, lastly, on ply, how much is the amount that we paid for acquiring 51% stake? And if you could please, detail on the capacity as well?
- Ashok Kajaria:** The total amount invested is about INR42 crores to acquire 51% stake.
- Ritesh Shah:** And sir, capacity?
- Chetan Kajaria:** 2.14 million square meters, which is 80 trucks a month, the capacity is roughly 2.14 million square meters, which is roughly 80 to 85 trucks a month. And then full optimization -- optimum utilization up to INR90 crores to INR100 crores of revenue.
- Ritesh Shah:** Sir, sorry, I could not hear the capacity, I heard INR90 crores to INR100 crores?
- Chetan Kajaria:** The capacity is 2.14 million square meters, which is 80 to 90 trucks per month. And on full optimum utilization, the plant will generate a revenue of INR90 crores to INR100 crores per annum.
- Moderator:** And the next question is from the line of Sonia Kohli from Shri Money Matters.
- Sonia Kohli:** So, first of all, many congratulations for another splendid quarter. So, first question from my side is about, from where are they getting the majority of our business? Is it from the renovation activities or the properties that have been newly constructed?
- Chetan Kajaria:** See it's mixed. The demand is mixed. It's a combination of both renovation and some new projects. But looking forward, we foresee that in future, we can get new projects much more.

Sonia Kohli: Okay, okay. Because of the infrastructure development, right. And sir, second question is that -
- I want to know the approximate respective contribution of Tier 1 and Tier 2 cities. Both in the current performance and the future expectations?

Ashok Kajaria: In metro, it is close to about 20%. In Tier 1, it's close to about 30%. In Tier 2, it's about under 30%. In Tier 3, it should be close to about 15%, and Tier 4 should be about 5%.

Sonia Kohli: Okay. And we expect to continue this trend in future also?

Ashok Kajaria: No. The Tier 3, Tier 4 over a period of next three years should slightly go up because that's where a lot of new construction is happening. So, I would say that Tier 3, Tier 4 should slightly do better.

Sonia Kohli: Understood. As my final...

Ashok Kajaria: Yes, please, please.

Sonia Kohli: My final question is about the industry as a whole. So currently, this industry is experiencing a boom. But what do we see in the coming time for this?

Ashok Kajaria: See, industry is passing through a tough time. Two reasons. you see, real estate has been good for the last two years, as you all have been saying. First year, what they did sold the inventory, which was locked.

Second year, new construction started, whereby they made these structure where cement, steel, cables and all that got used. Now is the time for our kind of industry like paint, tiles, sanitary ware, ply, all these will come in from now on. So, we hope that next three years should be good for the industry.

Sonia Kohli: Understood. Thank you so much and all the best.

Moderator: Thank you. And the next question is from the line of Achal Lohade from JM Financial.

Achal Lohade: My first question was with respect to the demand scenario. I know you've already partially answered, but have you seen some improvement in January or January also looks pretty much the same what it was in October, November, December months?

Ashok Kajaria: January has been equally tough. As we all know, North has been very cold with so much of fog in last 20 days. So, North market has been affected. West, South is more or less okay. East is okay, but North has suffered very badly due to weather, entire North, as you all know. So, January has been very tough. And I would say the quarter will also be tough. If we are looking at a scenario where Kajaria should grow at about 6%, 7% in volume terms for the quarter. But going forward, we are very positive that things should improve.

Achal Lohade: And how do we look at the lead indicators? I mean, yes, you did mention about the real estate, but is there any green shoots, any particular indicator you're seeing that things are improving? Or how do we see...

Ashok Kajaria: It's too early to tell. I just told you that January has been tough. February and March will be more or less like this, where Kajaria should grow at about 6%, 7% in volume terms, maybe 7% in volume terms. But looking at that lead indicators, we will only know after the post budget, post-election where things should start looking up. So, I think we have to wait for another two months.

Achal Lohade: Got it. Sir, a related question. You did mention that you have outgrown the industry by five, six percentage points even in the past, and the same is expected to continue. So given the numbers, what we have reported for last few quarters, is it that the industry is kind of flat or seen a slight decline? How do we look at this?

Ashok Kajaria: Absolutely. You are absolutely correct. The industry is flat. Two things I told in my opening remarks also, gas prices have gone up much more by almost 17% from August onwards. Morbi has not even touched the prices. So, why? Because exports are down, the local market is down. So, looking at that, we have to see where to find the right balance, and more indications will come only around end of March.

Achal Lohade: Understood. Sir, the second question I had was with respect to the pricing. Now if you look at the realizations for each of our three buckets, whether it is owned or subsidiaries or outsourced, we see a realization kind of being down Q-o-Q as well. So, is it purely the discount? Or is it purely the mix? How do we read this?

Ashok Kajaria: No. Prices, you are absolutely correct, prices have come down by 2% to 3%. And I would say we are lucky that the prices have only come down by 2% to 3%, looking at the overall scenario. Because as I just said, Morbi in spite of 17% increase in gas prices, normally they would have increased tile realisation. They have not touched the prices at all.

The prices per se has not come down. We have given more benefits to the traders to sell, which I've always said. Prices per se don't come down. We give benefit to the dealers so that they can sell more by some sort of scheme or something.

Achal Lohade: Got it. Sir, if I may ask one more. I'm sorry. If you look at what Morbi was, let's say, five years back and what it is today, you see that Morbi is far more competitive now given the players have become bigger, the Tier 2, Tier 3 players have become bigger and hence, I mean it may not really hurt Kajaria, but in the industry, do you see that Morbi is far more organized and hence, the possibility of any significant margins or significant growth is kind of getting reduced year after year?

Ashok Kajaria: See, two things you asked, and I will answer one by one. First, what has happened in Morbi?.Morbi has improved partially due to GST. You know what was the situation six years back. Because GST just completed 6.5 years now, after first of July, that 6.5 years have been completed. They have partially corrected themselves. And today, what is happening is more or less, people have come in GST.

There are some things going here and there, I'll not go into the deep side of it. But that process will further be corrected maybe in a year or two years or so. But once it is corrected, definitely,

their share will come down. The organized sector, per se, will take some market share. That's number one. Number two, as far as their organization concerned, yes, they are getting better.

They are putting better plants, and they are trying to do. But see, they are all local players, all based in Morbi. When you go all over India, like we are, or Somani is, or Johnson is, then you have to do a lot of advertising and all that to build the brand, which is still far away. Couple of people are trying to emerge like Sempolo and Varmora, we all know.

But it's still far away because to make a national brand, you have to spend a lot of money on advertisement and placement of plants at other areas also, right now they are restricted to Morbi.

Sanjeev Agarwal: May I add some things, Achal. Achal, I think your question was whether the market is more advanced and competitive, the answer is yes. The product is concerned, their product quality, they are coming in a big sizes, that is correct. But in India, India is a very vast market. There is a brand conscious customer, there is a cost-conscious customer.

So, despite they are making the same type of tile, the same quality of tile, there is a segment in the country which will go for the brand even the products are similar. So -- so both will grow. I mean, they will continue to cater to the cost-conscious customers and branded players will continue to contact to the brand-conscious customer.

And going forward, there will be a situation where the gap between the branded and unbranded will shrink. And a lot of -- because of Indian people inspiration, a lot of people will turn towards the branded players. So, we are very confident the industry will move towards the branded player.

Achal Lohade: Got it. Sir, this is very helpful. Just one more question, if I may. With respect to the fuel mix, the RasGas, Gujarat Gas, biofuel and propane, etcetera, coal for the quarter, sir?

Ashok Kajaria: I just shared our prices of INR39 blended for the fuel.

Achal Lohade: So, I mean, fuel mix in terms of the total fuel consumption, how much is propane -- sorry, how much is biofuel, how much is RasGas, how much is Gujarat Gas, because...

Ashok Kajaria: See, for North plants i.e Sikandrabad, Gailpur, we are using 30% as a biofuel. And overall scenario, you see the combination of biofuel, coal and this -- what you call propane is around 25% overall. Propane, right now, it's zero.

Achal Lohade: And the balance, 75% is gas and Gujarat Gas?

Ashok Kajaria: 75% is gas, yes. Gas consists of Ras Gas, other gases and Gujarat gas.

Moderator: And the next question is from the line of Keshav Lahoti from HDFC Securities.

Keshav Lahoti: Sir, you highlighted the margin guidance for next year, what sort of volume you are targeting?

Ashok Kajaria: Volume, we've already said that, and I think you must have listened while you are at the -- this listening that we will do 5% to 6% more than our competitors. And that's -- and that industry, I'm sorry, than the industry, and we have been doing this for years. And we are confident that industry will improve. Industry will improve, our growth will go.

We cannot quantify at the moment, but we are confident that we will be growing 5% to 6% higher than the industry. If Industry will grow by 5%, 6% next year, we will be growing 12%, 13% like that.

Keshav Lahoti: But any sense like what sort of growth you are expecting for the industry, when is the demand revival, what sort of number...

Ashok Kajaria: It's too early to tell today, as I said, let's wait until March.

Keshav Lahoti: Got it. What is the capex for the first nine months? And what sort of capex you expect in FY25?

Ashok Kajaria: FY25, I already said that we will share with you in the next quarter results. And this year, it's about INR370 crores for FY24.

Ashok Kajaria: March '24 should be INR352 crores capex.

Keshav Lahoti: This is excluding Nepal.

Ashok Kajaria: Yes, Excluding Nepal.

Keshav Lahoti: So last two questions from my side. One is on the slab plant. So, it's a normally less competitive market and the margins are higher. So once the plant ramps up, what sort of EBITDA margin you expect in this? And lastly, on the brands side, which is right now around 3% of revenue. Is it going to stay at the similar level? Or is it going to inch up going forward?

Ashok Kajaria: Starting with the first question, you asked on the slab plant. It's too early. Right now, as you said, that we're going to give this -- I think, in the next half of next quarter, we'll give you details as to what we plan to put and what is -- how it's going to be. And as far as the advertisement is concerned, yes, 3% is there, and it's only going to be more. I mean, we're going to be around that level, we're going to be spending on advertisement from our company.

Moderator: And the next question is from the line of Sneha Talreja from Nuvama.

Sneha Talreja: Good evening, and thanks a lot for opportunity. A couple of questions from my end. Firstly, on the demand front, I know you've already answered a lot. But just one clarity here, this kind of scenario that you're seeing right now, is the demand stood on completely broad-based, like region-specific or Tier 1, Tier 2 cities or whether it be a replacement or new demand? Any sense on any of these parameters would help.

Ashok Kajaria: Going forward, we are more positive than what we are today, number one. Metro is more of a renovation, Tier 1, Tier 2, Tier 3 is more of a new construction. So, if you take it like that, it

will be new construction will be close to about 75% and replacement, renovation will be about 25%.

But I also like to add for the benefit of the people that a lot of work is also coming from the government side. A lot of things are happening on education, and health sectors, a lot of work is coming from the states on that front. They are now with this new push towards new railway stations, push towards new airports, all this is going to add more to the demand because of the infrastructure spend being spent by the government.

Sneha Talreja: Understood, sir. Sir, secondly, on your new division, could you specify what are you exactly -- like what is the -- how is the distribution with respect to adhesives on plywood front? How is the distribution reached? What we understand is your Bathware was something which were -- you were targeting our existing tile dealers. But what's happening with the plywood panel space? As well as adhesive's part would be helpful.

Chetan Kajaria: First, I'll answer the adhesives part. Currently, our existing dealers are selling our adhesives, plus we're also hiring a new team from the market from the adhesive industry. In terms of plywood, the distribution network is totally separate. And the existing tile dealers do not sell plywood and laminate, they have separate distribution networks for that.

Sneha Talreja: Sir, lastly, while you mentioned a lot on the Morbi-based player, any comments on large brands looking at entering into tile industry, whether it be somebody like an L&T or somebody like -- we have been hearing even a couple of other players are in this industry. Any view there? What's the right to win or any such feedback would be helpful from your end.

Ashok Kajaria: We haven't heard anything like that. Number one. Number two, the key thing, as you all know, you see number of dealers, the kind of dealers you have. See, to manufacture in the industry is much easy. To have the network of dealers is the most difficult part, which has been generated over a period of 35 years. So, I think any new guy coming in, I'm not talking about L&T. There are some sanitaryware people who also wants to come in, they come in, they get out, they come in and get out. So, I leave you to judge that, how it will shape up.

Moderator: And the next question is from the line of Mahek Talati from Yellow Jersey Investment Advisors.

Mahek Talati: So, a couple of questions, especially on the export side. So how has the Red Sea prices impacted the overall export market?

Ashok Kajaria: Exports have slowed down. November, December, January, the exports which are on an average of about INR18 crores, which is the data we gave you for the first seven months have come down to about INR1,300 crores. November, December, January, the exports have been to the order of INR1,300 crores each month. See the rates have really increased. I give you an example, container to UK was costing \$600 in December. And today, it's costing \$4,000. So, because of the high fee rates and the transit time, exports are down 40 days of year. The export -- transit time has increased in that part of area from 20 days to 40 days also. So, availability of shipping will be less, this will further be high if this problem continues.

- Mahek Talati:** So then -- can we expect this export demand to transfer that to domestic, which can result in oversupply and further decrease of prices going ahead?
- Ashok Kajaria:** I just answered this in earlier this thing, two things will happen. Part of it will come to domestic, I don't say. Whereas, secondly, they will cut down in production because they can't sell everything to domestic. And third, the moment the situation exists in that part of the world, they will again go back to export because exports is a priority to them for various reasons. And also, it's not easy for any brand to just dump in the Indian market without any network since they've been exporting. So, there are no leverage, they are not...
- Rishi Kajaria:** And they have no brand. So, it is not a switch on and off button that you suddenly export, you suddenly dump in the domestic market, you're starting to export again. So, if your exports are going down, then you most probably reduce your production and you stop the plant.
- Mahek Talati:** Okay. And last, in terms of the two acquisitions. So, what are the capacities which we are expecting to come from KUPL and KTPL...
- Rishi Kajaria:** KTPL already mentioned, it's going to be 6 million square meters at our acquisition costs about INR50 crores. And for KUPL, it's still very early. We're just buying land right now. And in the next three to four months or in the next quarter review, we will give you an outline as to what we are planning.
- Moderator:** And the next question is from the line of Anmol Grover from Albatross Capital.
- Anmol Grover:** I just wanted to know what is the profitability for the bathware segment?
- Ashok Kajaria:** Bathware segment EBITDA is roughly about 8% for the first nine months. And I think by the time year-end, it would be between 9% and 10%.
- Anmol Grover:** Sorry, 9% and 10% for nine months?
- Ashok Kajaria:** No. So far for nine months, it has been close to 8% plus. And by the year-end, it will be close to between 9% to 10%.
- Anmol Grover:** Okay. Okay. All right. Is there any way you can bifurcate this between faucet and sanitaryware products?
- Ashok Kajaria:** More or less the same. It's more or less the same.
- Moderator:** And the next question is from the line of Arun Baid from ICICI Securities.
- Arun Baid:** We have seen you diversify from tiles to bathware, now getting to plywood, adhesives. Do you think our broad range is not done, or we still have more addition to think about?
- Ashok Kajaria:** We are diversified. We have only diversified to plywood. These are all related fields where the dealers said, you are already a big supplier of tiles to us. Why can't you give your bathware and sanitaryware, which we started. And as I said in my various earlier meetings, 50% joined,

50% didn't joined because some of them were married to other brand like Jaquar or HSI or Cera.

And now in the last year, the dealer themselves said, we are using adhesives also. Why can't you supply adhesives to us? So, we have launched the brand name of GresBond by Kajaria. So, adhesives have been launched on those lines. The only diversification which we did was in the field of ply and laminates.

Arun Baid: Sir, do you think the portfolio is complete from that sense? Or there are more to come?

Ashok Kajaria: See the kind of growth we are talking about, unfortunately, it has not happened from the volume side or revenue side this year. I think the hands are full for both my sons, they are looking after the day-to-day things. And next three years, actually, we hope that we should grow much faster than what we have done. And we should focus on what we are already doing.

Arun Baid: On the wood front, particularly, we have gone into plywood, MDF is fast-growing segment there. Do we have plans for that segment too?

Ashok Kajaria: No. You see as far as ply is concerned, you all know that we have not made any money so far, we have lost money. So, first idea is to make money. And as Chetan said earlier, that we had to have this JV because of the quality problems because of the supply problems because they were small units who were supplied to this division. Now once this plant comes, then we should have stability. Next year, we are talking about INR150 crores. And still, we'll lose some money. Let me tell you in advance to the order of about INR6 crores to INR7 crores. And next year after that, we should be able to breakeven. So that's what we are talking about. So as of today, what we have to do is to do our job well as far as ply is concerned so that we will be breakeven at the earliest.

Arun Baid: Just one clarification here. My question was with regards to MDF because most of the guys who sell ply are looking at MDF also. So, I'm just trying to understand whether we have plans for MDF in the near future?

Ashok Kajaria: No, I already answered, you didn't listen, we are not looking at anything. The only growth is what we are doing, ply we will do by partly manufacturing, partly outsourcing. Laminates, as Chetan said, we will do by outsourcing.

Moderator: And the next question is from the line of Shubham Agarwal: from Axis Capital.

Shubham Agarwal: Just one small clarification. You said the realization. So, we saw the realizations have dropped for you, 1% Q-o-Q. This is because though Morbi has not taken any price increases you said and we wouldn't have either, is this because of the product mix change? Or have we taken some price cuts? Or as you said, that we passed on additional benefits to the dealers which has led to lower realization?

- Ashok Kajaria:** No, I said two things. One, Morbi has not taken any price hike, yes, they have not taken. And our prices have fallen by 2% to 3% over a period of time. And they have not fallen as far as price is concerned, we have given that additional benefit to the dealers to sell more. So it could be in the quarter, we have given a discount of about 2% to 3%. And partly you see a 1% fall could be due to product mix.
- Shubham Agarwal:** Right. Sir, and given that you've said that the exports have also seen a downtrend, if I got the numbers right, you said INR1,700 crores was the run rate -- monthly run rate earlier until October, which has decreased to INR1,300 crores since November. And since...
- Ashok Kajaria:** Yes, November, December, January is INR1,300 crores average per month.
- Shubham Agarwal:** Yes. So, since that has happened in some tile is being diverted to domestic markets, are you seeing an increase in competition?
- Ashok Kajaria:** Sir I have already answered this question twice. Anyways since you are asking again. And as we said, partly they have taken shut down which is much easier than what we can do, number one. And partly, as Rishi said just now, a few minutes back, that it's not easy that unbranded player comes and says you buy my products today and tomorrow, I'll not be there because I have to export. It doesn't happen in the trade, you know. The dealer has to run a shop, he is an entrepreneur. He has to take his wise decisions, whether I should have a onetime thing or I should continue doing my business. So, it doesn't happen like that.
- Shubham Agarwal:** Right. What I was asking was, have you seen a month-on-month increase in competition in January over December? Like would you be able to give some...
- Ashok Kajaria:** Nothing like this, nothing like this. You see, you are asking this question, you have seen the results of other building material companies, like Asian Paints, everybody is feeling still the market has been tough. So, we are not out of that. We are putting our best efforts. I can tell you. But what the market scenario is, as you all understand.
- Moderator:** The next question is from the line of Aasim from DAM Capital.
- Aasim:** One question on the Tiles realization. I think just taking your 9-month volume and tiles revenue, the average number is just about 380 per square meter. Now given that pushing price hikes is hard unless everyone in the industry does it. I just want to know that how will mix improvement help this realization figure in the future? Can your upcoming capacities in GVT and large format tile basically mix improvement? Is there a case for the 380 figure to go to say, 395, 400 in the next couple of years?
- Ashok Kajaria:** See, the question which you asked is very valid and very important. Let me tell you about GVT then I'll tell you about ceramics also. Once value-added tiles increases, your realization per square meter will definitely come up, for example, it will take some market share of the existing players. And you their the price is much higher.

Similarly, ceramic also sell value-added products bigger sizes tile, the realization will go up. Price increase per se will not happen at least for some time that we are looking at. But value realization, the market is slightly improved.

Asim:

But I think product innovation has not really helped keep prices rather blended realization, higher for a longer time, but given that the competition has also been -- have been able to provide similar products in the past. So just that the 380 number going to 390 by 400, I just wanted to understand the degree of confidence behind.

I understand that theoretically it should go up. But the probability of that happening, is that like a decently high number as per you? Or would this still be like overall a volume game? Tiles volume growth will come in, blended realization may be flattish given the way the competition is?

Ashok Kajaria:

You didn't understand what I said. The market is moving gradually towards bigger tiles in the last three to four years. When these bigger tiles come in, they are priced higher as compared to these smaller tiles. So, the realization will, is not a resultant of how better I'm producing a good tile or the other guy is producing a slightly lower tile. Realization will come from more use of bigger tiles where the prices are higher. And at the end of the day, you will get a better per square meter realisation for that particular commodity, whether it's ceramic or GVT.

In PVT, also we have brought a lot of value-added products, bigger sizes, which some of them we are outsourcing and the value addition will also be looked upon accordingly.

Rishi Kajaria:

So yes, to answer your question, the company is moving towards value addition as we go ahead. And that's the reason of putting the continual plus lines also. That's the reason of buying the land also in future. So yes, it will take time because the market is flat, we have really not got any results this year, but maybe in future, definitely, we are looking at a very positive scenario.

We are also working on our distribution network and seeing how we can display more and more of value-added tiles. So yes, the future looks good. We can't comment on the exact numbers what the realization will increase to, but yes, company is moving in that direction.

Asim:

Sure. And just one follow-up. I think to an earlier question, you did say that Tier 3 and 4, Tier four markets will grow faster. Will that have a negative bearing or would that not be material enough on the realization -- blended realization?

Ashok Kajaria:

We are selling best of the tiles. People have a lot of money out there; they are showing interest to the tiles. I gave you an example, the showroom opened in Jhanjharpur and Darbhanga, they are state-of-the-art showrooms. Jhanjharpur is a population of 70,000. It's a Tier 4. Darbhanga, you can say Tier 3.

And the guy over there has opened 15,000 square feet in Jhanjharpur exclusive Kajaria. In Darbhanga, he has opened 11,000 square feet exclusive Kajaria and all kinds of products are

displayed, all value-added products. People have money but they didn't know where to buy their product. They used to go to Patna to buy the products.

Moderator: The next question is from the line of Rahul Agarwal from InCred Equities.

Rahul Agarwal: Ashok ji, one question I had in my mind was on real estate. What we understand is premium luxury real estate is actually doing better across the country, both if we track Delhi, Bombay, Bangalore, that's what it looks like, larger metro cities. Larger houses, people want more square footage, higher floors, in-built amenities, stuff like that.

Most of the discretionary companies, I know, you also mentioned Asian Paints and Havells they are looking at some kind of slowdown and everybody is hoping for a recovery to retail demand. Just wanted to get a sense, obviously, it has to tie up with this Tier 3, Tier 4 story of that mix actually getting better. And your exposure to metros, as you said, is over 20%. So, I'm not really sure whether this premium luxury kind of changes our business.

And coupled with this also is you mentioned infra demand from government airports, ports, railway stations and stuff like that. Would you -- since you sell everything through your dealers, how would you track that? What is Kajaria's penetration into, let's say, project side? And then on the retail side, does this premium luxury demand also help you? I'm just trying to get a sense of whether this real estate demand actually will play out into our favour or not?

Ashok Kajaria: See, there are two things. You said metro. For metro, they require better tiles, good tiles, even larger tiles for which we are talking about putting up the plant of glazed vitrified and we already have products in glazed vitrified in bigger sizes, but even more bigger sizes.

As far as general construction is concerned, they're using all kinds of tiles. Be it ceramic, be it polished vitrified, be it glazed vitrified it doesn't make any difference.

It all depends on where you're making that property, number one. Number two, metro is a different story. Tier 1 is a different story. Tier 2 is a different story, Tier 3 is a different story, Tier 4 is a different story. India being a large country, all kinds of products are being used not from today, it will last for many years and will continue to do. See, when you talk about specifically that luxury is in demand. It's basically limited to cities.

When you go to Tier 1, Tier 2, Tier 3, Tier 4, it's again a normal scenario.

Rahul Agarwal: So, Tier 1 to tier...

Rishi Kajaria: Just to add in that, like Delhi, Bombay, Bangalore and all we supply directly to projects. Lot of these especially we supply directly to projects and can track what is happening. Even government projects, a lot of it is supplied directly so that we can track and they also wants to buy directly from the company. Some of them are very large-scale projects, so, they are through contractor. So, all our sales are not through dealers.

Rahul Agarwal: So, what my understanding was about maximum 10% is what you build directly to government or projects, right? Is that correct?

Ashok Kajaria: It's close to about 30% is the institutional sales. Yes, we always been saying 70% is through retail outlets that is a dealer outlet. And 30% is institutional sales. When you talk about the institutional sales, it is a two to three types. One, government projects where they want the billing directly or through a contractor, but company markets itself for that account. Then smaller builders where they want direct billing, but payment is not an issue. So, these are the two key kinds of things which we are targeting as far as institutional sales are concerned.

Rahul Agarwal: I mean your experience over the last 12, 15 months, where we're seeing a tough time, has this proportion changed in favour of institutional sales? I think that should have happened?

Ashok Kajaria: Institutional sales have improved. But in Kajaria, the overall percentage is still low. Institutional sales, when you say government institutional sales have improved, and it will be more and more with the kind of government putting infrastructure. As I said earlier, two areas we are spending a lot of money is health and education. And also, now a lot of business will come from airports, which they are trying to modernize.

From railway stations, which we are talking about. Like for Bombay and Lucknow, they are talking about modernizing the airport. So, these are the demands which will come over the period of next six months to one year. The projects are already on. And if you all recall, Modi ji has already sanctioned 500 railway stations across India to be modernized in the next three to four years.

So ultimately, tiles have to be used in all these places.

Chetan Kajaria: And our mix will remain about 75%, and 25% is projects because we're working in both the plants. So that proportion is more less the same even going forward, we feel it's going to be the same.

Moderator: And the next question comes from the line of Utkarsh Nopany from BOBCAPS.

Utkarsh Nopany: Sir, like if we see in December quarter, we operated at 101% capacity utilization. I'm talking about our old and subsidiary facility. And our capacity would increase by only 7% in FY25 with the help of the recent acquisition of 6-MSM GVT facility in Morbi. So, I wanted to know, do we have scope to increase our own and JV sales volume in the current March quarter on a sequential basis as we operated at full level in December quarter?

And do we plan to add more capacity in the domestic market in FY25 as we are quite positive about the demand scenario from next year onwards?

Chetan Kajaria: See, it will be a mix of both outsourcing and increasing our own capacities. And we take the call, there we go ahead and see how the market conditions improve. We already announced two projects in GVT When as the market condition improves, we can update you more in the next couple of quarters how we are planning to increase our own production or outsource the remaining capacity.

- Utkarsh Nopany:** Okay. So, for this March quarter, whether our owned and JV sales volume would be limited to what we have done in December quarter, there would not be any sequential growth in the volume?
- Chetan Kajaria:** Correct.
- Ashok Kajaria:** I already said that.
- Moderator:** And the next question is from the line of Amit Purohit from Elara.
- Amit Purohit:** Just -- sir, on the initiative that the company is taking up more on the sales for automation from April 2024. And on dealer management system, if you could give some more insights into what is this change will happen due to this operational...
- Chetan Kajaria:** The sales force automation is more to improve the efficiency of our existing sales force. And we don't plan to increase more manpower. As we go along and increase our production and capacities, the same team will do the sales. This is more for more efficient working, mapping their routes, making them more efficient and you managing your time more efficiently.
- The dealer management system is more for making the dealers more efficient. They can see the stocks online. They can see the outstanding online. They can place the orders to the factory. So, to get this is more automated and make it more efficient for everybody on holding the good supply chain.
- Amit Purohit:** Yes. But would that result in some reduction in the inventory at the dealer level? Or would this could have an impact on a -- whenever it gets launched, some inventory correction in the system?
- Ashok Kajaria:** It will reduce inventory level also, plus it increases efficiency of our people, increase the efficiency of the organization.
- Amit Purohit:** Okay. So, I mean would this be more of an online ordering system by sales force guys?
- Ashok Kajaria:** No, no, no online ordering. Online ordering, we see, the dealers still do online orders, but we can see live stocks and order directly to the plant through dealer management system, just like an airline ticket. It will increase his efficiency also.
- Amit Purohit:** Sure. And sir, sorry, I'm new to this sector, but I just wanted to know that what is the sales force automation, which is the sales team does is basically to take orders and give it to the dealers in terms of -- for execution of the orders? Is that...
- Chetan Kajaria:** It is more of automating the whole system. As they make new dealers, it will map that new dealers whole profile that all comes in the system. Everything is stored digitally to reduce the paperwork, map their routes, increase efficiency, and know what they're doing. The whole chain gets more digitized and automated.

And all the seniors to the juniors do know exactly what is happening in the system where the people are traveling, what is in the whole day, are they efficient or not. That is the whole purpose of introducing a sales force automation system in the organization.

Ashok Kajaria: Many good companies have done it. Just like we were told that Asian Paints, Havells, they're already doing it. We are slightly late, but we are implementing from 1st of April. And also going forward, if -- this should also make sure that we don't increase our manpower and the same team will take care of the future growth as well.

So, all these systems -- so two or three years down the line, as the company grows, but no of employees will not grow, and it will be more systematized.

Amit Purohit: So, we are the first in our sector to do this?

Management: I can't say that. We can't say that. We are the first of -- yes.

Ashok Kajaria: No, no, we are not the first -- we don't know -- in our trade, we don't know, but I just told you that Havells and Asian Paints are already doing it. And that's what we have learned, and we are trying to improve ourselves. That's all I can say at this stage.

Amit Purohit: Sure. And just one more thing on the investment that we are doing. One, I understand that there is an acquisition. And first is a subsidiary for the tile. So why is he setting up a subsidiary why can't we do it in the Kajaria itself?

Ashok Kajaria: We are going through subsidiary because we also want some stake of local partners from Gujarat from whom we are buying the company.

Amit Purohit: Okay.

Rishi Kajaria: Morbi is really peculiar market. We don't want to have any factory on our own, for all the local issues, you always need a partner. So, all our JVs and Morbi have a local partner. So, the similar model, we wanted this one to be as well. There's the other controlling stakes, anywhere between 80%, 90%, and the rest is with a local partner.

Moderator: And the next question is from the line of Achal Lohade from JM Financial.

Achal Lohade: It's been a while now. Just in terms of the data, if you could help us with the GVT PVT ceramic mix for 3Q FY24 and nine months?

Chetan Kajaria: So roughly, the ceramics -- revenue is at 39% and volume is at 43%, PVT is 26% and 25% and GVT is 36% and 32%.

Achal Lohade: Got it. And Chetan, if you could help us understand in terms of the comment made was obviously not given the harsh winter. Obviously, it's impacted. Can you help us understand from a FY23 or nine months, how the mix is for North, West, South, East?

Chetan Kajaria: So roughly, North is 40%. South is roughly 30%, West is another 18% and East is 12%.

- Achal Lohade:** Understood. Understood. I think that's very helpful, sir.
- Moderator:** And the next question is from the line of Saurabh Jain from HSBC.
- Saurabh Jain:** I'll make it quick in the interest of time, sorry. So, what I'm trying to understand is why there is so much variation in terms of your capex cost for setting up 1 MSM of capacity because it ranges from almost like INR10 crores per permission for the new plant acquisition that you have made just now.
- And it goes up to more than INR30 crores for the Nepal plant and some of the previous brownfield expansions that you have done, I think it translates to somewhere about more than INR20 crores per MSM. So, I understand it could be different for different kind of products that we do, but what explains so much the variation in your capex cost? I wanted some clarity here.
- Ashok Kajaria:** See, as far as Nepal is concerned, nothing is available there. Everything has to go from India. So like equipment and the machines have to be coming from China or Europe and has to be routed through India. So, putting up the costs are high. But at the same time, the realizations are much better because it is based on basically an input-based country.
- There are three plants already coming up and running. But at the end of the day, the realisations are much better than what we have it here. So, the cost of putting up the plant will be there, but the realizations, EBITDA margins will be better at the end of the year.
- Saurabh Jain:** But then comparing the, say, ROCEs for the new acquisitions that you have done, would the ROCEs be materially higher than what would you probably do at Nepal or some of your previous business? Or how do you see that?
- Ashok Kajaria:** See, that's what we are seeing, and that's why we are putting up the plant. Nepal ROCE should be better than what we are having it correctly.
- Saurabh Jain:** And compared to the new acquisition, Keronite?
- Rishi Kajaria:** Keronite it will be me much, much better because we've got a very good deal on the entire project. So there, they're expecting ROCE almost 30% plus.
- Saurabh Jain:** Yes. So that is precisely my question is that why we rather -- if we have such attractive rates in the market, why not rather try to focus our capital allocation on striking such good deals, wherein we make very strong ROCE?
- Rishi Kajaria:** It's not necessary to get that deal every time. So, this is, I think, one of the good deals we got, and we grabbed it. And in the future, if we get anything like that, we are still open, right? If we have cash in the company, we are always open to good deals. So, this is a good deal. So, we got it, you're right, your calculation is pretty good that INR50 crores for 6 million square meter is a very good deal. And that's why we're looking at a much better ROCE and margin in this.

Saurabh Jain: Yes. And does it also then imply that probably the Ultima? Because I remember, I recall a couple of years back, we had plans to do 5-MSME at INR210 crores of cost in Ultima. So then again, that expansion could actually be kind of much lesser in terms of ROCEs compared to the Keronite acquisition?

Rishi Kajaria: You're absolutely right. This is the same Ultima plan which we have planned earlier, which we put on hold that time. We were not confident in the market, but now looking at this scenario, we are very bullish. And yes, going forward, the land we are buying is for something similar, which we are working on right now, which we want to buy the land first.

And last two, three months, we will announce in the next meeting as to what we want to do. But yes, it is to put our slab plants. The exact working we will share in next quarter meeting.

Saurabh Jain: Okay. Thank you so much. Thanks for answering the questions.

Ashok Kajaria: Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to management for closing comments.

Ashok Kajaria: Thank you very much for this meeting. I think good questions, and I hope we have answered it to the best of our ability, and thank you very much for organizing this. So, I thank all the people who have joined us today for this conference on behalf of Kajaria management and myself. Thank you.

Moderator: On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.