

CERA

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22nd February, 2020

To BSE Limited Corporate Relationship Department 1 st Floor, New Trading Ring Rotunda Building, P J Towers Dalal Street, Fort, Mumbai – 400001. Scrip Code :532443 Scrip ID: CERA	To National Stock Exchange of India Limited Exchange Plaza Bandra Kurla Complex Bandra (East) Mumbai – 400051. Scrip Code: CERA
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Dear Sir,

Sub: Transcript of the Conference Call held on 6th February 2020
Ref: Regulation 30 of the SERI (LODR) Regulations, 2015

With reference to our letter dated 4th February 2020, intimating you about the Q3 FY2020 Earnings Conference Call held on 6th February 2020, please find attached the transcript of the aforesaid conference call.

We hope you will find the above in order and take necessary action in the matter.

Thanking you,

Yours faithfully,
For **Cera Sanitaryware Limited**,



Narendra N. Patel
President & Company Secretary
Encl: as above

Cera Sanitaryware Limited

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CERA Sanitaryware Limited
Q3 & 9M FY20 Earnings Conference Call Transcript
February 06, 2020

Moderator: Good day ladies and gentlemen and welcome to the Q3 FY20 earnings conference call of CERA Sanitaryware Limited. 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mayank Vaswani from CDR India. Thank-you and over to you, sir.

Mayank Vaswani: Thank you, Margaret. Good morning everyone and thank you for joining us on the Q3 and nine month FY20 earnings conference call of CERA Sanitaryware Limited. We have with us today the management team of CERA Sanitaryware comprising Mr. Ayush Bagla – Executive Director and Mr. Rajesh B. Shah – CFO and COO of the Company.

We will begin the call brief opening remarks from the management following which we will have the forum open for an interactive Q&A session.

Before we begin, I would like to state that some statements made in today’s conference call may be forward-looking in nature and a disclaimer in this regard is available in the earnings documents that have been shared with all of you earlier.

I would now hand over the floor to Mr. Ayush Bagla for his opening remarks.

Ayush Bagla: Good morning, everyone and thank you for taking time to join our call. The earnings for the third quarter and nine months were adopted by the Board of Directors yesterday, February 5th, 2020. The earnings documents have been released to the stock exchanges.

I am pleased to share that we have delivered a positive top line performance in the third quarter. During the current fiscal we have continued our efforts towards more detailed product segmentation, widening our distribution network and enhancing our product portfolio. These initiatives have served us well. In addition to this, our steadfast focus on inventory and receivable management have continued to strengthen our balance sheet and operating cash flow.

As a debt-free company with over Rs. 209 crore of cash in our balance sheet we believe, we are insulated from the short term impact of business cycle and are well-

positioned to take advantage of the economic upswing as it unfolds. More importantly, our financial strength allows us to continue to make investments in product development, network expansion as well as marketing and promotional activities, positioning us favorably to capitalize on an improvement in demand.

For Q3 FY20, revenue for the quarter stood at Rs. 326 crore versus Rs. 323 crore in Q3 FY19, registering a 1% Y-o-Y increase. For Q3 FY20, 46% of the top-line was from sanitaryware, 25% from faucetware, tiles represented 25% and wellness 4%. On a Y-o-Y basis, sanitaryware revenues registered a decline of 11.3%, faucetware revenues grew by 8.5%, tiles was higher by 22% and wellness grew by 11%. EBITDA excluding other income for Q3 FY20 was Rs.43 crore versus Rs.46 crore in Q3 FY19. The EBITDA margin stood at 13.36% lower by 105 basis points. Profit after tax for Q3 FY20 was Rs. 28.37 crore largely stable compared to Rs. 28.36 crore posted in Q3 FY19.

EPS on a quarterly basis was Rs. 21.81 per share versus Rs. 21.80 per share on a Y-o-Y basis.

Having completed the festive season and nine months into the fiscal, the Sanitaryware segment has seen a sustained period of growth and will soon return to its normal trajectory of growth. The primary reason attributable is extremely subdued economic environment, which has led to lower demand. We anticipate a return to growth in the next year for the following reasons:

1. As the implemental real estate projects are largely affordable housing, CERA which has had a large portfolio of sanitaryware products focused on affordable housing projects has further segmented the market, with newer options within category
2. We have launched 50 new SKUs in Q3 of the current fiscal
3. We have enhanced our customer touch points with nine dealer owned CERA exclusive showrooms and added 172 new dealers in Q3
4. Immense focus on sustainable manufacturing and global recognition and certification for water saving products will continue to benefit the business

As the numbers indicate, we have built a resilient model where a large proportion of costs are variable. The EBITDA margin and profitability have held up even in times of subdued demand.

The faucetware segment has delivered an encouraging performance. We have reported growth on the back of continued market penetration of our products. We seek to build on this and endeavor to continue this trajectory well into the next year.

Sanitaryware and faucetware business remain the core focus area for us and we are confident of the prospects on a sustained basis. The tile segment is growing according to business plan and has enhanced our brand presence as a complete bathroom solutions provider across the distribution network. Wellness has grown well on a small base.

Inventory days in Q3 FY20 were 52.83 days compared to 48.03 days in Q3 FY19. Receivable days in Q3 FY20 were 58.34 days versus 58.35 days in Q3 FY19. Payable days in Q3 were 33.35 days against 34.56 days in Q3 of FY19. Therefore, net working capital days in Q3 FY20 was 78 days versus 72 days in Q3 FY19. On a sequential quarter basis, working capital days have reduced from 80 days in Q2 FY20 to 78 days in Q3 FY20.

We remain sanguine about the prospects for the industry, given multiple government initiatives including:

1. Recapitalization of PSU Banks, which we expect will have a multiplier effect.
2. NBFCs being able to raise debt and equity which would result in increased pace of disbursements.
3. In the Union Budget announced a few days ago, we welcome announcements on increasing allocation to smart cities and the push towards affordable housing. The Government's focus on infrastructure, rural development and improving farmers income is encouraging and we believe this will reinvigorate economic growth, especially in Tier-II and Tier-III centers as well as rural areas.
4. Lastly, the extension of sops towards affordable housing by one more year is favorable for demand for our products.

We continue to believe that we are well-poised to capitalize on a revival in customer sentiment, given our comprehensive product offerings, wide distribution network and high brand recall. We have just completed a rewarding festive season and the seasonal uptick towards the second half of the year continues. We believe that affordable housing will continue to comprise a majority of completed projects and under-construction projects as well. We are also witnessing encouraging signs across commercial real estate, co-working, co-living and the hospitality industry.

Before I conclude, I would like to inform you about some developments in the management team. At yesterday's Board meeting, the Board has elevated Ms. Deepshikha Khaitan as joined Managing Director for a period of five years and also reappointed Mr. Atul Sanghvi as Executive Director and CEO for a further period of three years. Both the appointments take effect from 1st April 2020, and subject to approval by the members in the next general meeting.

On that note, I would now like the moderator to open up the line for Q&A. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Archana Gude from IDBI Capital. Please go ahead.

Archana Gude: I have three questions. How the demand scenario in Q3 and has there been any improvement particularly on the retailer side?

Ayush Bagla: See the market has remained subdued and though we continue to find though the end consumer is willing to spend and willing to buy products, they are postponing decisions in some case, that is one trend. The second trend we are seeing is that retailers and dealers are right sizing their businesses. So over the last two, three years we have found that retailers and dealers who had expanded into too many areas, open too many outlets and created a very large infrastructure of sales people and logistics are now right sizing their business. So, whatever problems there were in the trade of liquidity and cash flow, those they are addressing on an individual level. So, I feel that in this business the trade and the financials of the trade are extremely important and that is finally getting addressed after three quarters.

Archana Gude: Okay. So you mean to say that there are early chance of revival in the month of January?

Ayush Bagla: See the consumer sentiment, in my opinion for products where CERA is present was never that muted, they have merely postponed demands but the manner in which the Company has introduced new SKUs, new models, address the changed dynamics of the market. That is really made a huge impact, for example of the total number of SKUs, 20% have been launched in the last 18 months, which constitute little more than 10% of our topline. So this is purely an addition to our topline, where we found the problem was, like we discussed in the last call, payments from the retailer to the dealer were delayed and that was causing a lot of problems and as CERA is a very conservative Company, we don't really relax our credit rules for any dealers. So we had to become even more conservative in terms of taking credit calls. So all of that is now getting streamlined, sorted out, because those individual entrepreneurs who are retailers and dealers are right sizing their businesses.

Archana Gude: Right. Sir, in the last concall you mentioned that instead of October the prices may be increased in December, January. So, have we taken any price hike and if yes, then to what extent?

Ayush Bagla: Normally we review our pricing every April and October. The last April pricing was implemented on 1st May. And then subsequently the October price hike was reviewed and because of a very benign raw material environment in sanitaryware and faucetware, there was no price hike taken in October. So, brass prices in faucetware have declined considerably, which is more than 40% to 45% of the total cost.

Archana Gude: Yes, so as you mentioned that prices may be increasing in December, January. So, have we taken that price hike?

Ayush Bagla: The new price hike between 3% to 5% across all sanitaryware products, will kick in from 1st April. On faucetware the model is much more dynamic and very linked to brass prices. So we've not reduced prices, but we are not going to take a price increase unless there's an upward movement in brass. But overall you will find in sanitaryware 3% to 5% price increase implemented from 1st April 2020.

Archana Gude: Sure. And lastly, have we decided anything on the CAPEX front for FY21?

- Ayush Bagla:** No currently that is still being worked out. Because the CAPEX plan for this year 2019-2020 that also has not been exhausted. So, there is still some money left to be spent from the location of this year and for next year it is still being worked out.
- Moderator:** Thank you. The next question is from the line of Hiral Desai from Anived Portfolio Managers. Please go ahead.
- Hiral Desai:** I had a couple of questions. One was this, as you mentioned in the opening comments regarding most of the costs being variable. Now my question is, if I look at the other expenses in this quarter, it is sequentially down about 13.5%. So can you just explain us, was this specific cost savings or were there other moving parts?
- Ayush Bagla:** Other expenses have a number of headings. So production overheads is more or less similar with a slight trend downwards, power and fuel is more or less similar, publicity there's a saving of about Rs. 2.5 crore, packing material there is a saving of about Rs. 50 lakh. Sales and Marketing expense there is a saving of Rs. 9 crore.
- Hiral Desai:** Sales and marketing?
- Ayush Bagla:** Yes. Freight and forwarding there is a saving about Rs. 2.25 crore and IndAS adjustment there is a benefit of Rs. 5.4 crore. So those big items have resulted in the major savings. This is for nine months I can give you for three months as well.
- Hiral Desai:** So, sir the Rs. 9 crore number on sales and marketing is a full year number here today?
- Ayush Bagla:** Yes. Now the same number for Q3 it is almost Rs. 4 crore.
- Hiral Desai:** Okay. And do you think this benefit that we are seeing on the other expenses can sustain as we go along for probably next three or four quarters?
- Ayush Bagla:** This sales and marketing is totally dependent on the management's view on whether that money should be spent in opening touch points or spending on the media in further enhancing the brand. Year and a half ago, we took a view to open a very large format in Bangalore and in Morbi. And redo the Ahmedabad customer experience center so that a lot of money of sales and marketing was used for that purpose. This year again, a lot of money has been spent on the brand but still lower than the year before. So this is purely a function of the view that the management takes.
- Hiral Desai:** The others thing is, we were in Gujarat about a month ago and there are a lot of these regional players like Simpolo, Commander, Plumber. So, just wanted to understand like how large would some of these players be and how competitive they are from a depth of the product offering perspective?
- Ayush Bagla:** They are largely Me-Too products they basically grab the catalogues of three, four people companies like CERA. Identify a few products which are fast moving for companies like CERA, and then try and manufacture those on the outsource basis or on a local level basis. So the technology level of whether its natural gas or 1200 degree firing, or even glazing, those things are never possible. So there's a mark

difference in the touch and feel from an end consumer standpoint. And for a 25 year product if you are differentiating yourself by a price advantage of Rs 400, Rs.500 it's making less and less of a difference going forward.

Hiral Desai: If I just look at sanitaryware let's say over the last three years what cumulative pricing you would have taken?

Ayush Bagla: Normally every six months it is between 2 and 7% across all products so you can see average of 3.5%, 4% annually.

Hiral Desai: Okay. And within sanitaryware and faucetware both what would be the share of premium products at an industry level?

Ayush Bagla: I can give you our share. Because industry data is very hard to come by.

Hiral Desai: That's fair.

Ayush Bagla: So we have divided our sanitaryware and faucetware into entry, mid and premium based on MRP. Now, the MRP number I won't be able to give you simply because it will reveal our pricing strategy to the market. So for Q3 FY20 sanitaryware plus faucetware, entry products constituted to 35% of our sale, mid was 15% and premium was 50%. And the same thing if you want to cumulate, the percentage remains the same.

Hiral Desai: Okay. And I'm presuming that at the industry level the premium share would be slightly lower, given that some of our competitors at least the organized guys would operate in the premium space. So at the industry level, the premium share would be slightly lower as compared to CERAs share right?

Ayush Bagla: If you are talking about our peer group, specifically Indian peer group. Their range and our range is very similar. If you are talking about the MNC peer group, the Japanese and the German companies operate at a dramatically different market.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: My first question is with respect to the reach. So as you said, in 3Q you've added certain number of dealers. If you could help us with, what would be the universe and how much have we reached out to? I know it's hard to give a number but just a broad sense with respect to where we are in terms of the overall reach?

Ayush Bagla: I'll just give you some numbers as of December 2019, our total dealers were 3461. This is a 19% increase from March 2019. Our total retailers were 11,306. Now, this number you will find it similar because the new dealers that we have attracted, we don't know how many retailers they are servicing. So we've kept the number same.

Achal Lohade: Okay. What would be the universe the total retail universe according to our best estimate?

Ayush Bagla: Between the top four, five players it would be at least 50,000 to 60,000.

- Achal Lohade:** So roughly we have just reached out to 20% is that right?
- Ayush Bagla:** No, between our total dealers and retailers are 14,767, so let's say that's 15,000. So the top four players would have 10,000 to 15,000 each. Some of which are overlapping, some of which are exclusive.
- Achal Lohade:** Understood, okay. Number two, with respect to tiles business can you help us in terms of the mix how it has changed in the last three years? And in terms of the ROCE what is the capital employed in this business if you could share that and how do you see it growing going forward?
- Ayush Bagla:** For Q3 FY20, our share of GVT is 28% of our sales. Out of an 80 crore, 28% is GVT, soluble salt is 13% and the rest 59% include double charge, wall tiles, paving tiles, etc. Capital employed is basically our investment in our two JVs which is Rs. 29 crore and Rs. 8 crore. So our Andhra JV is Rs. 29 crore and Rs. 8 crore in our Gujarat JV.
- Achal Lohade:** In addition there would be some working capital as well?
- Ayush Bagla:** Yes, so the receivables minus the payables.
- Achal Lohade:** Okay, and plus inventory as well?
- Ayush Bagla:** Yes, correct. Inventory I'll tell you, our two JVs together do not supply more than 35% of our total sales. We buy from them on a just in time basis and the balance 65% is direct supply from those vendors directly to our consumers in most cases to save on duplication of logistics. So we don't keep any inventory from neither outsourced nor from our JV partner.
- Achal Lohade:** Right, okay. So, receivable minus payable would be how much in number of days broadly?
- Ayush Bagla:** We have not split it on segment basis.
- Achal Lohade:** No, I am just trying to figure out what is the return we are making in the tiles business?
- Ayush Bagla:** The total receivable days as on December 2019 were 58 days. And if you take out tiles, it becomes 39.85 days against 44.60 days on a Y-o-Y basis.
- Achal Lohade:** Understood and payable?
- Ayush Bagla:** We have not really split the payable but the total payable is 33.35 days, which was 34.56 days.
- Achal Lohade:** Fair to assume it will be similar for tiles as well or it would be higher?
- Ayush Bagla:** We have not really split it up so won't be correct for me to say.

- Moderator:** Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies India. Please go ahead.
- Sonali Salgaonkar:** Sir my first question is mainly to do with the industry dynamics. So, in your opening comments, you mentioned that affordable housing is expected to be a prime demand driver going forward and urban construction is not doing as well. So with the increasing proportion of affordable housing in the revenue mix do you think the margin trajectory could possibly change from here on, considering that we have a different line of products for affordable housing versus our premium housing?
- Ayush Bagla:** Within affordable housing also, there are a lot of premium products being sold. So I'll give you a statistic to just bring out some flavor on that. Here one sale for nine months was 31%, and for Q3 it was 30% of our sales. This is for towns and cities with a population of above 25 lakh. Tier-II for nine months, were 12.6% of our sales which were 11.8% in Q3, which is 10 lakh to 25 lakh population. And below 10 lakh, which is Tier-III and below, nine months our sales were 55% in Q3 it was 56.5%. So, as I just mentioned a few minutes ago that our share of premium products according to MRP is more than 50% of our total products. So you will find a significant overlap between sales in Tier-III towns and those premium products. And in affordable housing, the type and brand and the design of sanitaryware and faucetware that is being used as a significant marketing tool.
- Sonali Salgaonkar:** Okay, got it sir. Sir my second question is, could you help us with two data points how much is B2B versus B2C for your business and what is the ad spend to net sales that you look at a sustainable basis going forward?
- Ayush Bagla:** Last quarter, I had said 72% of our sales are retail through dealers, that number is now 75% for Q3. So, 72% and 28% have become 75% and 25%.
- Sonali Salgaonkar:** Sir and ad spends?
- Ayush Bagla:** As a rule we keep that at 4% of our topline. And in 2018-2019 you will find that number lower and the year before that also you'll find that number lower because a lot of that money was used for customer touch points. But as a rule, we end up spending 4% in advertising and brand building.
- Moderator:** Thank you. The next question is from the line of Shreyans Jain from Renaissance Investment. Please go ahead.
- Shreyans Jain:** Sir just wanted to understand if I look at you nine months FY18, FY19 and FY20. We haven't improved our gross margin significantly and the same thing has happened with the EBITDA margin. So what I'm trying to understand is with this increase in affordable housing is this trend going to continue on a longer term basis. And secondly, as you also mentioned that our B2C sales have increased to 75%. So what is it that is not working out for us to improve our margin sequentially, nine months FY18, 19, 20 on longer term basis?
- Ayush Bagla:** Margin expansion will kick in once sales expansion kicks in, so it's a matter of time. And that will happen in the sanitaryware business the way it's happening in the faucetware business. So we expect that to happen anytime. That's the easiest way to look at it because not more than 20% of our total costs are fixed costs. And that

includes the employee costs which are fixed, finance costs, depreciation and a share of other expenses which is fixed all constitute 20% of our total costs. So a little bit of sales expansion will see margin expansion.

Shreyans Jain: Okay but going by your commentary what I am trying to understand is since you're saying affordable housing is going to be the driver and we don't know when the premium real estate starts moving. So then how are we going to get that improvement right. Because I don't think the affordable housing will have a product mix improvement in that sense, right?

Ayush Bagla: So affordable housing is also a buyer of premium products. And if you increase your value in affordable housing your margin, both on an absolute number and on a percentage basis will expand.

Moderator: Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Sir just a couple of things faucetware has seen healthy revenue growth and that could be larger on account of market share. So now, in the meantime your sanitaryware has seen a decline. So given this backdrop, what could be the current faucets margins how will they be different from the company's overall margin that you report?

Ayush Bagla: Both faucet and sanitaryware EBITDA margins are higher than the blended average of the company.

Abhishek Ghosh: Okay, so it's only the tiles part of it which is pulling it down effectively?

Ayush Bagla: Correct.

Abhishek Ghosh: And at what kind of run rate level do you expect these tiles margins to kind of move up or will there always be a difference between the tiles and the core sanitaryware faucet margins?

Ayush Bagla: There will always be difference but at the same time, share of GVT and share of DC. These play an important determinant in tiles margin, so about a year and a half ago we had 30% of sales as soluble salt which is now only 13%. So, and share of GVT and DC has gone up dramatically. Then we've launched slabs, in August. Again, high margin so as share of slabs, DC and GVT increase margins in tiles will increase. Of course now with a complete level playing field on the cost side with the GST implementation Companies like us are really benefiting from that and as you can see that from the top line expansion in tiles.

Abhishek Ghosh: Sure. And in terms of the overall JVs, what would be the utilizations for them now, both Anjani and Milo put together?

Ayush Bagla: I can give you the numbers but it's a little old. Anjani and Milo were both operating at between 90 and 95 utilization.

Abhishek Ghosh: Okay. So since we are seeing such strong growth in the tile segment and they are almost fully utilized now, so how are we looking in terms of the incremental sourcing if any thoughts there?

Ayush Bagla: In any case, both these together are only 35% of our sales. So, going forward we don't see the need to expand capacity in these two JVs we will be happy to source from third party. And third parties offer us very lucrative contracts given the overcapacity in the unbranded market.

Abhishek Ghosh: Sure, okay. Lastly, the APM prices are slated to come down because of the lower crude prices, are they going to have any bearing on the power and fuel cost for us?

Ayush Bagla: I will give you some color on power and fuel cost. We have two contracts one is the APM GAIL contract and one is the Sabarmati contract. So, GAIL pricing was for Q3, Rs. 13.95 and Sabarmati contract was for Rs. 33.9. So you can already tell how low the APM GAIL pricing is compared to market pricing. 32% of our consumption was GAIL APM and 48% was Sabarmati. And for nine months APM GAIL was 58% and 42% was Sabarmati.

Moderator: Thank you. The next question is from the line of Abhinil Dahiwalé from Macquarie. Please go ahead.

Abhinil Dahiwalé: I just wanted to understand the impact on our business and the industry mainly because of the lockdown which is happening in China because of the coronavirus awareness issue?

Ayush Bagla: See lot of the tiles companies who have been exporting to China may be impacted. We don't have any exports to China for tiles. We have a total export of minimum Rs. 15 crore annually, and bulk of it is to GCC countries. And five to seven years back we had a few vendors in China that is less than one or two vendors currently in China which is less than 0.2% of our sales. They can be substituted for any of the vendors in India.

Abhinil Dahiwalé: Okay, how about for other players in the industry who are like mainly importing from China?

Ayush Bagla: That for us to know any other companies vendor composition is very difficult.

Moderator: Thank you. The next question is from the line of Srinidhi from Pioneer Wealth Management. Please go ahead.

Srinidhi: Sir could you give us a data about the industry size of sanitaryware and faucetware roughly. And at what rate are we seeing the industry growth?

Ayush Bagla: Sanitaryware in the absence of any authentic third party data we estimate it to be between Rs. 3600 crore, of which maybe 70, 80% is organized. And faucetware we expect it to be between Rs. 7500 to Rs. 8000 crore of which 60% would be organized.

Srinidhi: And sir in what rate we expect the industry to grow in the coming years?

- Ayush Bagla:** Till 2018-2019 the industry sanitaryware was growing 7, 8%. This year there would be no growth at all in the industry. Going forward, we expect it to come back to its normal trajectory of 7, 8%. Faucetware would be slightly slower, 6, 7%. And in faucetware we were capturing between 12 to 15% incremental market share, if you consider our growth of 70 crore annually within the organized part of the faucetware business. So we expect the faucetware business also to come back to its normal trajectory of growth.
- Srinidhi:** Okay sir. In this quarter, from which geographical area did we see growth coming as in from the South, North, West and East?
- Ayush Bagla:** No state for CERA constitutes more than 15% of sales. The highest revenue state Kerala is 15% of sales and then of course, there are many close seconds. And for 2018-2019, our composition was North 25%, East 9%, West 22% and South 44%. And for nine months of this year, the same composition is for North its 30%, East is 10%, West is 17% and South is 43%.
- Moderator:** Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.
- Kaushal Shah:** Sir earlier on you had mentioned about delays in Q2 from retailers to the dealers in terms of payment. So how is that situation now, and is there substantial inventory in the system also, do we have any dealer financing etc. which can kind of ease the pressure on the retailers or the dealers?
- Ayush Bagla:** We have one public sector bank and one private sector bank, where we have lines of dealer finance at very, very low rates. The total combined limits and lines are Rs. 150 crore and at any point in time you will find the drawn lines between Rs. 40 and Rs. 60 crore. And the reason for that is sometimes dealers are reluctant to submit additional collateral required by the bankers or to submit the increasing amount of data that banks want. That is one, we neither encourage it nor discourage it because we don't want dealers to stock up without sales. As far as cash flow management by the retailers and dealers are concerned, they are right sizing. So, they would have in the last three, four years of market growth created too many touch points, created too much infrastructure and taken on too much costs. So, now they are right sizing, I feel that their cost will now be aligned to their revenues and actual consumer demand. And that will help not only them, but companies like us as well. From our side, what are we doing, we are getting them involved in our dealer ERP portal. So, they can predict demand, predict which SKUs are moving, how much Inventory to keep, etc. Second thing we are doing is, we give them access to our 19 localized warehousing. So that all the inventory can be kept in the company rented or company owned warehouse rather than at the dealers godown.
- Kaushal Shah:** Okay. From an earlier question, regarding China, you mentioned that there are several companies which export tiles to China if I have understood it correctly. If this virus issue persists, do you expect maybe some problem to the exports and therefore that quantity is coming to the local market and may be impacting the pricing scenario?
- Ayush Bagla:** On the production front, in tile there is already over capacity in India. That's why the capacity utilization of lot of plant which don't have access to large brands, or

they don't have their own brand is not more than 60%. So, that's a problem that is already on. About 10 years ago, India was the importer of tiles from China then the situation was reversed a few years ago. But I don't think that the quantities are very substantial to dent a Rs. 48,000 crore industry.

Moderator: Thank you. The next question is from the line of Ravindra Nath from Synergy Securities. Please go ahead.

Ravindra Nath: Sir, you just mentioned that the affordable size in a Tier-II below town, with good statistics that you have provided, and you have a well spread market across the country. So can you please provide the statistic related to entry, mid and premium segment products in Tier-II and below towns and Tier-II above towns?

Ayush Bagla: We have split our total sales into entry, mid and premium segment it's is not split based on Tier-I, II and III because that will reveal our marketing strategy to the market.

Ravindra Nath: Okay. Can you provide a broad sense of what it is, how has the product moved under Y-o-Y basis?

Ayush Bagla: Tier-III towns are not just buyers of entry level products. They might be selling apartments at Rs. 3.5 thousand to Rs. 4.5 thousand a square foot, but they complete their projects in six to nine months. They don't have any debt, its fully equity funded, the cost of approvals, regulations, the delays, cost of labor all that is much, much lower in those towns. So, their ability to spend on sanitaryware and faucetware is very high. And at the same time the local dealer, suppose we have three dealers in our Tier-III town those three dealers have a lot of influence. They have tie ups with lot of plumbing contractors, lot of civil contractors. So, the overall solution that a company like CERA can provide and the dealers can provide is immense. That's the reason you're seeing 56% of sales from these towns.

Ravindra Nath: Okay. So, is there a connection with the savings that you have mentioned, in other expenditure which you have saved around Rs. 5 crore in nine month and in the last quarter you have saved around Rs. 4 crore largely it is sales and marketing, power and fuel that have contributed but is there any connection with the affordable size housing improving, and also the below Tier-II below towns marketing or the sales improving. So, is there any connection there related to savings?

Ayush Bagla: No, it is just a call that the management team takes on how much to spend in sales and marketing, brand building, or to give that a pause for two months and save some money and use that money for any experience center, that's all.

Ravindra Nath: Okay. And nothing related to sales and geographical spread of sales, nothing related to that?

Ayush Bagla: The overall trend of 4% of top line that will always remain more or less a rigid number.

Moderator: Thank you. The next question is from the line of Arun Baid from BOB Capital Markets. Please go ahead.

- Arun Baid:** Just one clarification, you mentioned in the beginning that next year you are expecting the sanitaryware segment to grow at 7 to 8%. So should we expect our companies growth to be in line with that at least?
- Ayush Bagla:** Till it happens for us, to predict any forward looking revenue number even on a segment basis is very difficult. But yes, that is been the normal trajectory of the business and we expected to return to that trajectory.
- Arun Baid:** Sir because this year, when the growth of the industry has been flat, we have de-grown roughly in the range of 8% to 10%. So, if next year industry goes back to the normal growth trajectory, should we expect our growth to be high in that case?
- Ayush Bagla:** It doesn't look like, simply because our new SKUs revenues will kick in. So, like we mentioned in the last 18 months, I'll give you a number of total SKUs that will also give you some flavor about this thing. Total SKUs in sanitaryware is 387 currently, up by 50 SKUs sanitaryware is 387, faucet is 905. Both combined have increased by 50 SKUs during Q3 FY20. So, over the last 18 months, we've increased this number by 20%, and those new products constitute 10% of sales. These revenues will kick in and this year, we don't extend to which the sanitary market has de-grown. That number I think will be estimated at the end of Q4 FY20 when you add all the organized players' top line.
- Arun Baid:** So it's very likely that we will grow as per industry rate in FY21. Is that a right assumption?
- Ayush Bagla:** Yes, at least as the market leader, we will be in the first position to take advantage of the revival in sales.
- Moderator:** Thank you. The next question is from the line of Aksh Vora from Praj Financials. Please go ahead.
- Aksh Vora:** Just wanted to know you mentioned in sanitaryware the industry would be growing by 6% to 7% for next year, and faucet would be growing by 7% to 8%. So, do we expect to grow better than the industry?
- Ayush Bagla:** See sanitaryware will be first off the block, as the market leader will get the maximum share of new sales as it always happens. And in faucetware, you can see we have got 12% to 15% of incremental market share. If you see in the last two, three years, whichever market has grown at Rs. 400, Rs. 500 crore annually, we have grown by Rs. 70 crore annually. So, in any case, though coming from a small base we have made it to almost a Rs. 325 crore business which is second after the largest player.
- Aksh Vora:** I was coming from a point of view that in the last couple of years the industry growth have been very subdued and this is a very positive sign coming from you that we can probably see good growth coming from next year. So, just wanted to know, can we come to our good growth days back or are we still a little far away from that?

- Ayush Bagla:** We are all expecting things to turn around. But till it happens, we'll always take a very conservative approach and wait for things to materialize.
- Aksh Vora:** Can I get an average realization for all the segments like sanitaryware, faucet and tiles?
- Ayush Bagla:** We have almost 1100 SKUs, it's impossible to do something like that, per piece basis. There's too much variation we have products from Rs. 900 to Rs.3 lakh for SKUs in sanitaryware across four brands.
- Aksh Vora:** In last three years the industry has been very bad for our products and the real estate as well. What is the biggest learning you have got from the last three years?
- Ayush Bagla:** I think for CERA when we meet investors and funds, etc we get a reassurance that for them this is the best affordable housing play with zero debt, high cash and very high quality of governance. So there's been no unrelated diversification. There's been no dramatic CAPEX increase in any year in the last 10 years. And if you look at the way the company has behaved over the last three years, they were almost prepared for this slowdown. All the actions were geared towards impending the slowdown, low CAPEX, high cash conservation, focus on cash flow, focus on credit, very tight controls on giving extended credit to projects, reducing number of projects, and B2B business. So all these factors give us a reassurance when we hear that from the market.
- Aksh Vora:** That's correct sir. Lastly, do you see any risks to the growth that you are impending for the next year?
- Ayush Bagla:** Our model is totally de-risk if we had large portion of finance costs or depreciation cost or any other fixed costs, that would have played a role in creating a riskier situation. Now, on the outsourcing side, I just want to give you one statistic, around 50% of our sanitaryware and faucetware products are outsourced. So, no company has succeeded on a full outsourcing model or a full in house production model. So we have basically try to perfect this very delicate number of which products need to be outsourced, which products need to be made in house, how to do cost control and quality control on outsourced products. So all these are very delicate balancing acts, which we think we have now come to a very equilibrium state.
- Moderator:** Thank you. The next question is from the line of Pranav Mehta from Equirus Securities. Please go ahead.
- Pranav Mehta:** Sir, just wanted to understand on the utilization levels in sanitaryware and faucets if you can share that and second is, are we planning to add any other brand/sub brand in sanitaryware anytime soon?
- Ayush Bagla:** Okay, the utilization levels for nine months in sanitaryware were 81% and faucetware was 69% of our own production. For Q3 that number was 76% for sanitaryware and 73% for faucetware. As far as brands are concerned, we have our full brand pyramid now complete which are made in Italy products right at the top which are Rs. 40,000 to Rs. 3 lakh per piece. Then below that we have Senator which is maybe Rs. 17,000 to Rs. 40,000 per piece. And then the main brand which is CERA which is at Rs. 17,000, all the way down to almost Rs. 800, Rs. 900

per piece. And 90, 95% of the market is this mass market currently. And right at the bottom for government contracts and tenders we have a brand called 'JEET' which is neither advertised nor displayed even in our company owned experience center. So, currently there are no plans to introduce a fifth brand, but the extensions of these brands and the sub brands will continue to be created.

Pranav Mehta: Sure sir. And how much CAPEX have been done in nine months?

Ayush Bagla: The annual number for 2019-2020 was Rs. 56 crore, and so far we have consumed Rs. 31.8 crore. Now I'll give you the breakup of this Rs.31.8crore, Rs. 6.2 crore has been used for sanitaryware automation, Rs. 3.4 crore has been used for faucetware automation, Rs. 4.3 crore has been used for customer touch points, Rs. 11.1 crore has been used for completion of the staff colony at the Kadi factory. And Rs. 6.7 crore has been used for logistics and IT, infra upgrade.

Pranav Mehta: Okay sir. There are no plans for any capacity addition in sanitaryware or faucets?

Ayush Bagla: Just increase in automation, all this CAPEX is going to increase in automation rather than increasing the number of pieces

Moderator: Thank you. The next question is from the line of Neha Talreja from Edelweiss. Please go ahead.

Neha Talreja: Sir you also mentioned that your exports is relatively small and is going to GCC countries. So if you could just give some scenario, is it mainly tiles, and secondly any duty or finalization something that we have heard of in the tiles trend in the GCC countries?

Ayush Bagla: So, currently we don't have any tiles exports. And it's all sanitaryware exports bulk of it is to GCC countries, a little bit is to the US, Canada and Western European countries as well. We have not really promoted the CERA brand in those geographies. So we rely on our dealers to procure orders and then supply on a made to order basis rather than send our products there and wait for them to sell. So that has been the current export strategy.

Neha Talreja: Anything on the Morbi front, if at all you would have an idea of what's happening on the exports front any color on that?

Ayush Bagla: Larger tiles industry, we are again only concerned with our vendors from the larger tile industry other than that, on a generic tile basis we really don't keep track on the export numbers because in any case there is a significant overcapacity in India.

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

Ayush Bagla: I would like to thank everyone for attending this call and for showing interest in our company CERA Sanitaryware Limited. The company is well poised to maximize all opportunities for the remaining part of the current fiscal and as expected more buoyant next fiscal. With this, I hope I have been able to answer all your questions satisfactorily. If you feel there's any need for further clarification or would like to



know more about the company, please feel free to reach out to me or CDR India. Thank you once again for taking the time to join the call and see you all next quarter. Thank you very much.

Moderator: Thank you. On behalf of CERA Sanitaryware Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.
