CERA

CSL/2021-22/120
26^{th} June, 2021

To	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	National Stock Exchange of India Limited Exchange Plaza Bandra Kurla Complex Bandra (East) Mumbai - 400051. Scrip Code: CERA

Dear Sir/Madam,

Sub: Transcript of the Conference Call held on 11^{th} June, 2021
Ref: Regulation 30 of the SERI (LODR) Regulations, 2015

With reference to our letter CSL/2021-22/85 dated 2^{nd} June, 2021, intimating you about the Q4 FY2021 Earnings Conference Call held on 11^{th} June, 2021, please find attached the transcript of the aforesaid conference call.

We hope you will take the same on record.

Thanking you,
For Cera Sanitaryware Limited,

Hemal Sadiwala
Company Secretary
Encl: as above

CERA SANITARYWARE LIMITED

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CERA Sanitaryware Limited

Q4 FY21 Earnings Conference Call Transcript

June 11, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY21 earnings conference call of Cera Sanitaryware Limited. As a reminder, all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Devrishi Singh of CDR India. Thank you and over to you, sir.

Devrishi Singh: Thank you, Steve. Good morning everyone and thank you for joining us on earnings conference call for Cera Sanitaryware Limited for Q4 & FY21 earnings which was announced yesterday. We have with us today the management team comprising Mr. Ayush Bagla – Executive Director; Mr. Rajesh B. Shah – CFO & COO of the Company and Mr. Mahesh Taparia – the Deputy CFO of Cera Sanitaryware. We will start with brief opening remarks from the management, following which we will open the call for Q&A.

A quick declaimer before we begin; - some of the statements made in today's conference call may be forward-looking in nature and a detailed note in this regard is contained in the results documents that have been shared with all of you earlier.

I would now turn the call over to Mr. Ayush Bagla for his opening remarks. Thank you and over to you, sir.

Ayush Bagla: Good morning, everyone and thank you for taking time to join our call. The earnings for the fourth quarter and twelve months for the period ended 31st March 2021 were adopted by the Board of Directors yesterday, 10th June 2021. The earnings documents have been released to the stock exchanges.

As we indicated during the last quarter, the demand from both retail and projects in Q4 was robust, and we witnessed strong traction across all markets and products. The home improvement theme has been resonating well with consumers. Project sites, which was gradually opening up during Q2 were in most cases fully operational in Q3 and in Q4. The impact of reduced interest rates for home loans at 6.5% to 6.75% was the single most important factor for the surge in interest for acquisition of new homes. We truly experienced the elasticity of demand in relation to cost of capital and real estate. Stamp duty reduction in a few geographies for a limited period made consumers bring forward their new home buying decisions. This resulted in demand exceeding all estimates in Q3 and Q4. As the challenges posed by Covid-19 steadily reduced in Q4, we started witnessing a notable improvement in our performance. The positive rebound in demand we witnessed starting Q2 FY21 and continuing in Q3 from our most profitable verticals, that is Sanitaryware and Faucetware businesses continue to sustain into the fourth quarter as well. The Sanitaryware business and the Faucetware business both continued their positive trajectory of growth during Q4.

These present trends are expected to remain strong in FY21-22 as well. The temporary blip of the second wave has halted offtake of products as some markets remained closed in April and May. We at CERA do not see this as a worry going forward. Demand is expected to exceed supply and since CERA's manufacturing operations remained fully operational in Q1 of 2021-22, there will be increased product availability going forward.

The media campaign on Staycation at Home, which was unfurled by the Company from September 19, directly connected with consumers post lockdowns. Recently, Republic TV recognized 'Kuch Pal Ghar Ke Naam' as an innovative campaign embedded with a social message relevant to the current times.

In Q4 FY21, the Company initially took some more days than anticipated to restore the overall normalcy in production post the labor disruption of Q3. Sanitaryware operations required plant maintenance cycle and fresh mould making process, which took almost 45 days in Q4 to complete. So the one time impact of plant disruption in Q3 also had a spillover effect in Q4. For the first 45 days, the Sanitaryware plant operated at a capacity utilization of 75% and for the balance half of Q4 capacity utilization was 95%. Overall on a 90-day basis, Sanitaryware plant operated at a capacity utilization of 85%, whereas our Faucetware capacity utilization continued to remain high throughout the quarter at 92%.

There has been a strategy to develop agile infrastructure by leveraging a mix of in house and outsource facilities to enable us to rapidly respond to evolving circumstances. This proved highly beneficial in the backdrop of the partial disruption, as we were able to increase volumes from our vendors to cater to the improved demand. Normal percentage of outsourcing in Sanitaryware which is around 50% to 55%, rose to 65% during this quarter. In Faucetware the normal percentage of outsourcing which is also 50% to 55% rose to 59%.

Coming to our numbers:
Revenues in Q4 FY21 were Rs. 431 crore, higher by 39% on a sequential basis. EBITDA including other income was Rs. 65.62 crore in Q4 from Rs. 48.21 crore reported in Q3 this year. The EBITDA margin has been 15.2% versus 15.6% in Q3 FY21. PAT was Rs. 43.02 crore in Q4 FY21 versus Rs. 29.09 crore in Q3 FY21.

Due to a rebound in performance, Q4 this year has nearly reached parity with Q4 last year despite the challenging backdrop due to the partial disruption at the manufacturing facility. For Q4 FY21 the revenue for the quarter stood at Rs. 431.37 crore versus Rs. 293.24 crore in Q4 FY20, which is up by 47% on a Y-o-Y basis.

On a Y-o-Y basis EBITDA excluding other income for Q4 FY21 was at Rs. 63.15 crore versus Rs. 42.4 crore in Q4 FY20, an increase of 48.9%. The EBITDA margin for Q4 FY21 stood at 14.64% higher by 18 basis points. Profit After Tax for Q4 FY21 has been Rs. 43.02 crore against the Y-o-Y number of Rs. 38.47 crore, an increase of 11.83%. EPS for Q4 was 33.07 versus 29.58 in Q4 FY19-20.

For Q4 FY21, 48% of the top line was from Sanitaryware, 30% from Faucetware and tiles represented 20% of top line. Wellness was 2% of top line. On a YoY basis Sanitaryware revenues registered an increase of 46.8%. Faucetware revenues increased by 62.3%, tiles revenues increased by 39.2% and wellness declined by 10%. The Sanitaryware and Faucetware verticals remain the bedrock of the business with contribution of 78% to our overall revenues.

CERA continues to witness encouraging demand for its newly launched products. During Q4 FY21 and during FY21 our new products contributed close to 20% of revenues. The Company has been receiving positive responses towards new packaging designs, which were introduced with an aim to create more brand awareness and for retail customer visibility.

The quarter also witnessed an increase in raw material prices of ABS, stainless steel, brass, zinc, and a few others. There was an increase in overall logistics costs due to rise in fuel prices. These factors led the Company to undertake a price hike of around 5% to 7% in Sanitaryware; 8% to 10% in Faucetware from the month of February 2021.

Inventory days in Q4 FY21 were at 51.66 days compared to 62.01 days in Q4 FY20. Receivable days in Q4 FY21 were 53.24 days versus 56.78 days. Payable days in Q4 were 52.90 days against 44.36 days in Q4 FY20. Therefore, net working capital days in Q4 FY21 were 52.9 days versus 74.43 days in Q4 of FY20. As most of you who closely tracked our Company are aware that this has been a strong focus area for CERA. Considerable efforts to compress working capital have been made over the last few years. Some of the initiatives such as digitization, establishing local warehousing has enabled us to offer just-in-time inventory management solutions for finished goods to trade partners and large customers. These efforts have gone a long way enabling de-clogging at the respective locations and sites, leading to faster and smaller billing cycles for CERA, resulting in better receivable management.

FY21 has largely been regarded as a period of disruptions caused by COVID-19. The Company has adapted well to these disruptions and through its judicious capital management was able to increase its already high liquidity position. So, as on 31st March 2021, our cash and cash equivalents increased to Rs. 479 crore compared to Rs. 230 crore on 31st March 2020. Cash provision has increased and become a significant portion of capital employed. ROCE including cash of Rs. 459 crore was at 18% and without cash at 32%.

Our CAPEX spends for FY21 stood at Rs. 10 crore as against our initial plan to spend close to Rs. 22 crore. CAPEX for FY21-22 is estimated at Rs. 26 crore. Though significant liquidity has been released as working capital has contracted, we do endeavor to monetize all of consumer demand going forward. During FY21-22 we may use a small portion of liquidity to increase the inventory levels and stock up on products from vendors.

The Board of Directors have recommended a final dividend of 260% on a face value share of Rs. 5, that works out to Rs. 13 per share, subject to shareholders' approval.

To conclude, overall, the sector fundamentals are strong, and the domestic demand continues to grow at a steady pace. As we look ahead, we continue to see an immense potential for our products. Healthy demand, coupled with our strong positioning in the industry should further enable us to gain traction and build momentum going forward. On the whole, we are confident of the future growth potential and opportunities across our markets over the medium to longer term.

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 Arun Baid from BOB Capital Markets. Please go ahead.

Arun Baid: Just a few questions on a number front. In this quarter, we did see our gross margins significantly declining both, if I look at the Y-o-Y numbers, any particular reason for that?

Ayush Bagla: There are three contributory factors, Mr. Baid. First of all, COGS increased due to two factors. In Faucetware sharp increase in the critical raw material of brass and that sharp increase was consistent in every quarter from Q2. So the dramatic price decrease that in brass that we saw in Q1 of last year was beneficial to the Company. We did not reduce our prices. And as brass prices went up from Q2, Q3, Q4, we increased one price hike last year and one this year. That was one reason. The second impact on COGS was the mould.

So post resumption of the factory on 22nd December it took another 45 days to run a maintenance cycle and to build fresh moulds for Sanitaryware. So that is one reason why the COGS is impacted.

Arun Baid: So going ahead this should normalize, right? This is one off in that?

Ayush Bagla: See, COGS if you look at the last six, seven quarters has been between 49% and 51% and that is where we feel it should normalize. So, the raw materials in Sanitaryware are widely available, there is very little impact in pricing. So, clay, feldspar all of that have very little pricing and availability continues to be plenty. The only moving item in this is brass. So zinc is less than 1% of raw material where the prices have gone up. So brass is the largely contributory factor and the mold making process completed on 15th February since then, there has been no extraordinary maintenance cycle that the company has had to spend on.

Arun Baid: So sir, incrementally for this year and going ahead should we look at this quarter margins as the normalized margins, EBITDA margins at least for the Company?

Ayush Bagla: See we always look at between 14% to 15%, we are at 15.2%. So anything between 14.5% to 15.5% is a good indicator. It is not really a guidance, it is a good indicator, because we will see the full effect of the February price hike kick in Q1 of this year.

Arun Baid: And sir, today morning in your interview, you had basically indicated that Rs. 1,450 odd crore, it was not a guidance but that was indicated on the call with CNBC. So you had mentioned 17% CAGR after that. So basically, you are going to say that this growth of 17% to 20% is sustainable beyond FY22 also. Am I correct to understand that?

Ayush Bagla: Even if you look at the year that has gone by 2021, we would have ended with Rs. 1,350 crore. So, the loss sales in Q3, we had given in our last call was Rs. 65 crore. The loss sales in Q4 have been Rs. 31 crore. So, the Rs. 100 crore deficit would have been made up from there. So, we would have hit Rs. 1,325 crore in any case. So, the plant disruption has cost us lost sales of Rs. 100 crore. And the demand is way ahead of supply. And that is a phenomena we are seeing from August, there has been no change. The second wave may have closed down a few Metro markets, project markets continue to function, wherever dispatches could be made, they were made. And as markets are opening up, there is again going to be a surge in demand. So, demand is not the issue right now, it is just the factories' ability and vendors' ability to supply.

And there is one more interesting factor. We have continuously spoken about us being an Atmanirbhar Company and relying on domestic vendors and that is why we have given out our China numbers consistently. It is always less than 5% of top line. So our imports from China have consistently been less than 5% of top line. During the year, there was 11% appreciation of the Chinese currency against the US Dollar. So those companies, which were China dependent, which had not built capabilities in their factories, not only were they constrained to import, but they were unable to price their products to pass on those increases to the consumer. So these are a lot of moving parts, and each of the moving parts is working in favor of the Company right now.

Arun Baid: In this quarter, current quarter, our production is normalized, right, for the plant?

Ayush Bagla: Correct.

Arun Baid: So whatever sales you have lost technically because of COVID in the first quarter, we will be able to catch up with that because we have the production ready in the incremental quarters, right?

Ayush Bagla: That is right.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, it would be helpful if you could give the mix for FY21 and what was the growth or decline in your four categories for FY21? That is the first question. Second, what is the total price hike that you would have taken in FY21 which close to in FY22? And did we somewhere mention that there is a possibility of Rs. 1,400 plus crore of sales in FY22?

Ayush Bagla: So I will answer the first question first. For the quarter Sanitaryware was 48.

Pritesh Chheda: No, I want it for full year, sir?

Ayush Bagla: I will give you both.

Pritesh Chheda: No, quarter 4 I have written. For full year if you could?

Ayush Bagla: Okay so for the full year Sanitaryware was 48.51% of top line. Faucetware was 28.28%. Tiles was 20.80% and wellness was 2.41%.

Pritesh Chheda: And the corresponding growth rates or decline in Sanitaryware, Faucetware?

Ayush Bagla: Sanitaryware was a decline of 0.62%. Faucetware grew by 10.49%. Tiles was minus 6.62% and wellness was minus 34.54%. And then coming to price increase, in August, we took a price hike of 3% to 5% across all products. And in February 2021, we took in Sanitaryware between 5% to 7% and in Faucetware 8% to 10%.

The way the brass prices have behaved there is a good case to have an intermediate price hike between now and August. So that is under discussion. It may or may not take place that is under discussion right now. And the third question was the run rate on revenues, right?

Pritesh Chheda: Yes, you mentioned something on loss sale of Rs. 2,100 crore, what is reasons for such number?

Ayush Bagla: Because the factory had an 82 day disruption in Q3, and it had a 45 days lower than normal capacity utilization in Q4. Complicated products, which were made at the factory could not be sourced from anywhere else because vendors cannot make those products so lost sales of Rs. 100 crore took place if you combine Q3 and Q4. So that is why if you look at our Rs. 1,201 crore top line, it is closer to Rs. 1,310 crore in any case.

Pritesh Chheda: That is how you are putting it?

Ayush Bagla: Yes, so 16%, 17% growth is the normal run rate. I am not even looking at this 46% run rate that we had in Q4 versus Q4.

Pritesh Chheda: So you are saying that 15% to 17% growth rate is possible next year is how you are putting on a normalized on that Rs. 1,200 crore revenue because you are assuming it is not Rs. 1,200 crore but actually it is Rs. 1,300 crore, that is how you are putting it?

Ayush Bagla: That is right.

Pritesh Chheda: Okay, and lastly sir, on the margin side, aren't there any levers on higher scale, which can flow through on the margin profile?

Ayush Bagla: There are two, three levers. First, we had a burst in advertising and publicity spends from September 19 to March 20. And that is the reason advertising and publicity during this lockdown year could be curtailed, because that was a very successful campaign. That is the one. Then Rs. 10 crore of contracts for rentals and godown rents etcetera were renegotiated. So, that was another reduction in fixed costs. And finally, if you look at the ratio of variable costs to fix cost in the Company, it is 80:20. So, that will be a very important operating lever for the Company and fourth and most importantly, the margin profile for products taken in Sanitaryware especially from vendors is as close to own manufactured products. So, share of outsourcing will increase with increase in revenue and the margin profile will be maintained. So, these are the four levers.

Pritesh Chheda: Okay. So, because the A&P spend was curtailed this year, right in 21, is it a case where it rises and hence you are still pegging the margin at whatever 14.5% to 15.5%?

Ayush Bagla: See normally see our advertising publicity is 4% of top line but now, that is no more rigid rule. Because the marketing professionals choose to have these spends in smaller bursts, and then they evaluate the impact and then they go for many bursts during the year. So if a burst remains effective for six months or nine months, then they postpone the next burst. That is how we calculate the numbers.

Pritesh Chheda: Can you quantify what is the A&P spend for 21 as a percentage of sales?

Ayush Bagla: It will be around 1.5%.

Pritesh Chheda: That is 1.5% versus 4% in 20?

Ayush Bagla: Correct, 3.5% in 20.

Pritesh Chheda: Okay, should this go back to the normal?

Ayush Bagla: No, it is not known right now. These are going to be small bursts and then post evaluation a call will be taken. In any case there is a shortage of product.

Moderator: Thank you. The next question is from the line of Archana Gude from IDBI Capital. Please go ahead.

Archana Gude: Sir, two questions. Sir, if you see most of the organized players have gained the market share in last two, three quarters, may it be your pipes, may it be your paints so how are we placed in terms of market share?

Ayush Bagla: Currently, there is no external data available or industry wide data available for us to be able to compute any market share. So we consider ourselves to be market leaders and others will tell you the same thing. Our Sanitaryware numbers are well known. So it is HSIL, CERA and Jaquar are neck and neck, and Parry is one step behind in Sanitaryware numbers. We are number two to the market leader in Faucetware. So, we know our Faucetware numbers and the other players' Faucetware numbers. So, I mean, the industry data is not really available or validated by third parties. So for me to compare on us on an industry wide basis is very difficult. In any case, all the MNCs are unlisted. Couple of domestic players, which are held by MNCs are also unlisted. So, it is very difficult to get authenticated data.

Archana Gude: No sir, what I was trying to understand is that the competitive intensity from the small or unorganized players has reduced in last couple of quarters is what I want to understand?

Ayush Bagla: In Sanitaryware that theme of unorganized to organize has fully played out because the Sanitaryware players provide a 10 year warranty on the ceramic product, there is after sale service. Similarly for faucet also, we are the only Company to provide a 10 year warranty versus a 5 year warranty by the rest of industry. So after sales service availability of spares those have become very critical factors. The price gap for a product that is going to last you between 10 and 20 years sometimes is miniscule at the lower end. So that theme of Sanitaryware moving from unorganized to organized is more or less played out 80% plus of the market in any case would be organized.

Archana Gude: Okay and Faucetware?

Ayush Bagla: Faucetware anything between 60% and 70% is organized.

Archana Gude: Okay. The second wave of COVID has been like very badly affecting the rural, which was supporting the Q3 and Q4 sales. So, like how has been April and May for us? Is there any improvement from June like in demand?

Ayush Bagla: See demand continues to be very strong and the problem for us was supply. So the most important factor during the second wave and April and June was the factory work continued to operate at 95% capacity. So whatever little inventory has been built up will easily get absorbed in June and July. Last year, we were grappling with supply issues throughout the year. This year, that is the single minded focus of the Company. So demand is not an issue, project sites remained open during the second wave in most places. And only retail and dealers suffered, with that demand will come back very strongly in June-July.

Archana Gude: And sir lastly, do we have any dividend policy at place?

Ayush Bagla: Yes, yesterday a revised dividend policy, which takes into account a lot of external economic and internal factors, such as availability of positive cash flow, CAPEX requirements, business risks, all that has been captured in a document. In any case, there is a dividend policy on our website from many years. And that has been revised with a little bit of more focus with numerical clarity and that will be immediately placed on the website. It was adopted by the Board of Directors yesterday. So the past dividend guidance of between 14% to 18% of PAT being declared as dividend, that is pretty much the guidance going forward.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

Prakash Kapadia: I had two questions. On the real estate sector we are seeing larger cities demand for households being much better this time as compared to Tier-3, Tier-4 cities. So historically, what trends have you seen, is metro cities and Tier-1 cities see higher demand. Is it easier to sell more value added products or high value added products, are we also witnessing that trend and if that hypothesis is true, then the value growth could be much higher than what we are looking at in the near term?

Ayush Bagla: The Metro towns especially Delhi, Bombay, and Bangalore, they look very appealing to all Sanitaryware and Faucetware companies. So maximum efforts by any new entrant in the business, especially MNCs are made in these three markets. So not only is there intense price competition, but companies spent a huge amount on display, rentals, and renovation of the interiors. Dealers also are very demanding; they want to get a lot of freebies from the Company. So we believe that the competitive intensity in Tier-1 towns is much higher. And that is why historically our numbers have been always tilted towards Tier-3 towns. So if you would like I can give you the breakup, there is not much change in the percentage. But our focus has always been Tier-2 and Tier-3 towns, where 65% to 70% of our sales take place. Tier-1 towns of course, we have a significant presence in these three markets. But the competitive intensity and the focus of all MNCs is in these three places.

Prakash Kapadia: Sir, even now we are witnessing that trend? You are saying there is no major change in terms of metro or Tier-2, Tier-3 cities even now?

Ayush Bagla: I will give you some data that will throw further light. So far in Q4 Tier-1 was 31% of top line for us. And for the year it was about 27% of top line. Tier-2 was 14% and for the year also 14%. Tier-3 was 54% of top line in Q4 and for the year it was 58%.

Prakash Kapadia: And on the Tier-2, Tier-3 side, in the gone by quarter most of the lockdowns was over broad based this time as compared to the lockdown last year. So how does the demand shape up? Is there a huge pent up demand because most of the retailers were start or semi start practically say for 35 days, 40 days during the quarter? So, does that incremental demand also leads to pent up demand once things open up and how do you cope up in that scenario where you are paying obviously the plants and capacity ramp up seems to be the focus? So how are we managing the scenario between the possible higher demand and capacity?

Ayush Bagla: See second wave happened in April and May. So till 31st March, there was virtually no impact on any market shutting down. During the second wave, most of our project customers continue to function. Now the dealers that shut down, they have merely staggered their demand. So I would not call it pent up demand, I will call it a chain of sustainable demand, which has what staggered by 60 days or 90 days. So since August, I have been saying that this is not any pent up demand. This is not a must have consumer durable. It is completely discretionary. But there has been a sequence of events where a lot of projects have now neared completion, because the end consumer is buying, projects find it easier to complete and sell their inventory and that is where we come in. So Sanitaryware, Faucetware companies come in the last three to four months of project completion. That has been a real awakening, that has been positive surprise. And that is fully sustainable. So I do not see this trend that pent up at all.

Even retail customers and dealers are simply staggering their purchases due to the second wave. The important thing was to keep sourcing from vendors and keep the factory operational. So last May, and last April 2020, there was negligible sales. This May and April were decent sales. So we definitely crossed three digit combined in these two months. So if you compare it to last year, it was much higher. If you compare it to any other normalized year, it was lower. But it will easily be made up in June-July.

Moderator: Thank you. The next question is from the line of Saurabh Shroff from QRC Investment Advisors. Please go ahead.

Saurabh Shroff: Ayush, my one question is you mentioned multiple times that demand is much stronger than supply and I am guessing this is in your case, as well as the industry. Can you help us understand what is our capacity addition plan and do we see any issues in meeting this demand or what are we going to do about it?

Ayush Bagla: See because we have been very careful with CAPEX all these years, we did not ramp up capacity in our manufacturing operations. We chose to build up capabilities. And that worked out well for us because we were neither China dependent and in any case, Indian vendors were not in a position to manufacture many of the complicated pieces of Sanitaryware and Faucetware. So each year a new list is made on basic items to be outsourced to third party vendors. And that continues. So as the top line grows, the bulk of the contribution of incremental sales will continue to come from vendors. And our factory will be used to make more and more high end pieces. So if you ask me volumes of the factory, that may not be a good benchmark, but value being made in the factory will continue to increase both Sanitaryware and Faucetware. So I will just give you some flavor on the CAPEX that we have planned. So for the year 2021, the total CAPEX budget was Rs. 21.82 crore of which only Rs. 9.84 crore were spent. And for financial year 2021-22, the total budget is Rs. 25.59 crore, of which the split is Sanitaryware automation at Rs. 6.69 crore, Faucetware automation, Rs. 4.97 crore, Rs. 8.4 crore in customer touch points and logistics, and IT is Rs. 5.53 crore. So there is no major capacity addition planned in the current plant right now.

Saurabh Shroff: So between this whole outsourcing mix do you think that we should not be at a disadvantage in terms of meeting the strong demand that is there clearly?

Ayush Bagla: See that is why we are all looking at all options. First, a lot of cash was released by compressing the net working capital days from 74 to 52. So maybe that 52 needs to go up a little bit, the inventory days needs to go up a little bit from current level of 51 days. So those are under discussion, there are plans being made to increase inventory days so that we do not have to turn away any customer like we had to last year. So that is the single most important factor for the Company this year.

Saurabh Shroff: And I saw on your website, you all have started some Italian kitchen line as well. I am guessing it is still very small. But can you talk us through how you all are thinking about adjacencies and new lines of business?

Ayush Bagla: See we entered into arrangement with the Italian Company where we would not have to incur neither any CAPEX nor any OPEX. So this is a brand called Senator Cucine. We take a full advance from a customer, and we design a bespoke kitchen for his home. And the designs are then implemented in the Italian partner's factory in Italy and then shipped to India where it is installed. So this is a zero working capital or OPEX business and it is still very small, top line is less than Rs. 5 crore. So as and when it scales up beyond Rs. 10 crore, then of course, the Board will take a call on what it wants to do with that business.

Saurabh Shroff: Okay, and any other sort of products that you all have added means there was a whole plethora of wellness products and now this kitchen line. So I am just wanted to understand how the Board and the management is thinking in terms of new lines of businesses? And what do you think is the potential scale on this kitchen business? Because obviously, this is very high end, and I guess competing with the big brands? And correct me if I am wrong. So is this a competition with a Poggenpohl and Hafele and things like that or is it more Indian pricing though Italian products?

Ayush Bagla: See, it is right at the bottom of the pyramid, starting at Rs. 2.5 lakh for an entire kitchen. So it competes with even a carpenter's version of a kitchen. And it can go up to Rs. 15 lakhs. And we figured that between Rs. 15 lakhs and Rs. 30 lakhs and beyond, there is a lot of competition, we do not want to be there. We want to be at the bottom of the pyramid to get certain volumes, and we got a very good deal from an Italian partner. So that is where the position is.

Saurabh Shroff: But Rs. 2.5 lakh this is still all imported, landed into India?

Ayush Bagla: Yes.

Saurabh Shroff: Which margin for us and them?

Ayush Bagla: Plus gadgets, plus electronic white goods.

Saurabh Shroff: Of course, yes.

Ayush Bagla: Then, the second question you asked about new SKUs. So I will just tell you why our SKU focus remains in Sanitaryware and Faucetware. There are plenty of opportunities is an Sanitaryware and Faucetware. Even during these COVID times, in Sanitaryware in Q4, we launched 22 products, and during the year we launched 75 products. In Faucet during the year we launched 11 products. So there are plenty of opportunities in these two businesses. And we had as a pilot project started three years ago, a water heater business, which became an Rs. 8.5 crore to 10 crore business. So the Board is not very keen to have any of these Rs. 8.5 crore to Rs. 10 crore kinds of businesses, which are too small for the Company. So, gradually, the water heater business will be phased out. So that is what you mentioned on the wellness side.

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, how do we look at the tiles business? I mean, it has been few quarters that we are kind of struggling with the numbers. I mean, on a Y-o-Y it is a strong growth of 40%. But if I look at on a 2 year CAGR, it is still a drop. So how do we look at this business in terms of the scale up? Where are we in terms of the growth aspirations?

Ayush Bagla: See, the tiles business has worked out well for us for two, three reasons. First, now soluble salt is only 7% of sales. This the first time that soluble salt is single digit. That is low end and lowest margin. And GVT plus double charge is now almost 55% of sales, which is the highest end high margin. So though CERA does not have any market leadership or brand premium in tiles like it has in Sanitaryware and Faucetware, the tiles business is operating on 50% cash and carry. So again, inventory days are reduced. Inventory days in tiles is close to zero because there is direct dispatch from vendors to the marketplace. So one-third of our total tiles sales is from our joint venture alliance companies and two-third is from completely third party vendors. So inventory days are close to zero. And finally receivable days, the titles industry as a whole has always had a problem of high receivable days. So 50% is cash and carry and all incremental dealers are being added only on 100% cash and carry. And we do not conduct any tiles sales below a certain threshold margin. So, though the tiles sales may not be a very large number, but every sale is profitable. And we have incurred no CAPEX. See, if we had put up a plant then we are dealing with a lot of issues in a plant and how do you respond to changing design changes and all of those factors. So the decision taken in 2015-16 was the most important decision not to invest in any capacity.

Achal Lohade: So, how do we look at it in terms of going forward? Is it going to be a big sort of growth driver or not really, it will be in line with the aggregate growth you are seeing?

Ayush Bagla: It all depends on the tiles market growth. The market leaders are also exporting lots of tiles, we have not been in a position to export tiles. So, the top line that the market leaders are seeing is also a result of tiles export. So, that is not happening, but overall profitability in tiles is increasing, we are getting some pricing power and 55% to 60% high end sales. So, that is the most important factor.

Achal Lohade: And just one more question with respect to Sanitaryware. Now, if I look at our top line for Sanitaryware in FY19 was close to Rs. 700 crore. For FY21, we have closed at Rs. 582 crore and you said that we lost about Rs. 100 crore of revenues largely in the Sanitaryware piece, right? So, that means two years we were kind of flat even if I gross it up. So, how do we see the growth I mean, when you say 15%, 17% growth, is it going to be largely driven by the faucet or even Sanitaryware can grow at that pace given the competitive intensity?

Ayush Bagla: See Sanitaryware we achieved Rs. 581 crore this year in six months of effective working and our highest number was Rs. 603 crore of 2019-20. So, we are almost there. On the best 12 year numbers have been achieved in effective six months. In Faucetware, again we have beaten all previous numbers, even the best year numbers have been beaten. So, Faucetware Rs. 339 crore and we are a market number two in Faucetware. And we are only a 11-year-old player Faucetware. So 16%, 17% was the growth being offered by the market even during this year, which we could not monetize.

Achal Lohade: This you are talking market growth for faucet or sanitary plus faucet put together?

Ayush Bagla: I am saying in Sanitaryware we achieved Rs. 581 crore in six months of effective working. Our all time highest number of Sanitaryware was Rs. 603 crore. So then you can understand the Company's achievements. So achieving another 16%, 17% growth, adding another Rs. 100 crore to Sanitaryware during 2020-21 is not difficult, because demand allows that.

Secondly Faucetware, we achieved Rs. 339 crore, which is higher than even the best year of 2019-20. Again, we got about nine months of effective working in Faucetware. So adding another Rs. 50 crore in this year is not difficult. Whether tiles add top line or not these two businesses together can easily add Rs. 150 crore is what I am saying.

Moderator: Thank you. The next question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: Sir, can you give the revenue breakup for the quarter and last year same quarter, please? I missed out.

Ayush Bagla: Yes, sure. Sanitaryware is 48.67% of sales this quarter. For the year is 48.51%. Faucetware is 29.81% for the quarter and 28.28% for the year. Tiles is 19.70% for the quarter, and 20.80% for the year. And wellness is 1.82% for the quarter and 2.41% for the year.

Rajesh Ravi: Okay. Sir, in terms of our balance sheet, we have significant cash balance. And your CAPEX outlook also is you are not expected to incur major CAPEX, you know large CAPEX. So what is the plan for this cash pile up which will continue?

Ayush Bagla: So we had Rs. 230 crore of cash balance when we started the year 1st April 2020. And the working capital days was 74. So working capital days, which came down by one-third to 52 was one of the reasons why cash in hand increased consistently every quarter. And now we have ended up with Rs. 459 crore plus unrealized gains of Rs. 20 crore making it Rs. 479 crore. Some part of that will be used this year to increase our inventory days. And that is going to be very important. CAPEX is planned only at Rs. 22 crore, and each year we had cash surplus due to profits of between Rs. 118 crore to about Rs. 150 crore. So, this year if you add the PAT and depreciation is about Rs. 135 crore and you take away CAPEX of Rs. 9 crore and dividend of Rs. 20 crore, that leaves you again with a cash surplus of Rs. 105 crore even for the year. So if your question is, is there a major CAPEX planned currently, we have toyed with a few plans, but no decision has been taken. And if there is a special dividend or a buyback plan that also has not been, that is a decision that has not yet come in front of the Board. So no decision has been taken.

Rajesh Ravi: Okay, because what we understand is that even incrementally for FY22, given the top line that you are looking at with a healthy margin of around 14%, 15%, our cash accrual will be strong, even in FY22. Even if you factor in the working capital increase, then also you may not have to dig into your FY21 balance cash, is the understanding right?

Ayush Bagla: That is correct.

Rajesh Ravi: Okay. On the segment wise growth outlook, as you mentioned that in Sanitaryware you are looking to add at least Rs. 100 crore top line growth this year, and Rs. 50 crore in the Faucetware. But when I have to look at two to three year view, what is your outlook? Will both these businesses will continue to grow at 15%, 17% or do you see different growth trajectory for these two business segments?

Ayush Bagla: See the best way to look at that is to look at the past. So even during the downturn in real estate, the company's top line doubled itself every five years and that happened twice between 2010 to 2015 and from 2015 to 2020. So going forward on a higher base, we always estimated that the Company will now double itself every seven years, but given the surge in demand, we expect again the Company to double itself every five years. So, if you look at that 15% to 17% top line increase is definitely possible both in the short term and in the medium term consistently every year.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: Just two questions. Ayush, firstly on the CAPEX side, when you say Rs. 9 crore to be spent on customer touch points, which is basically part of sales and marketing, could you explain a bit as in exactly where is this money spent and how does it help in incremental sales? That is the first question.

Ayush Bagla: So, we had Company owned 10 large format customer touch points in the major metros and because of the surge in demand in States like AP, Telangana, and Karnataka, we put up very large format of between 8,000 to 12,000 square feet customer touch points which are owned by the Company in Hyderabad and Bangalore, where there are tremendous amount of walk in customers, and these are experiential customer touch points. So, there are no sales taking place from these and the customer is then directed to a dealer in his projects area, or a dealer contacts them etcetera. So, we found a direct correlation between surge in sales and spending on these customer touch points. These are all either in large format office buildings or malls or retail outlets or shopping areas. So the Hyderabad one is just opposite to IKEA in Gachibowli. In Bangalore, we have it on 100 Feet Road, so the best two locations possible. And these are visited by plumping contractors, civil contractors, architects, homeowners, and developers. Now we are also toying with a hybrid model where we go to a dealer and try and create some uniformity in their retail outlets design with the customers with the Company owned experience center. So by spending Rs. 1 crore, Rs. 1.5 crore on our dealer's outlet, we can achieve what we would with by spending Rs. 3.5 crore on a Company owned outlet. So the hybrid model is under discussion, and the Company might open a few of its own large format customer touch points. The real estate is never owned, it is always rented. So this is largely the interiors and the fit outs.

Rahul Agarwal: And secondly, you mentioned on the market share bit obviously there are no numbers sanctity but still just to discuss. HSIL, CERA and Jaquar you said are neck to neck on Sanitaryware. Parryware is a notch below and on faucets we are the number two player, is this correct?

Ayush Bagla: That is right.

Rahul Agarwal: And on the market size basically if the way I understand Sanitaryware is about Rs. 4,500 crore to Rs. 5,000 crore and faucets are about Rs. 8,500 crore to Rs. 10,000 crore. Is that correct? That is the range to work with.

Ayush Bagla: Sanitaryware though we really do not have an authentic number it is a little lower than the number that you mentioned.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Ayush Bagla for closing comments. Over to you, sir.

Ayush Bagla: Thank you, Steve. I would like to thank everyone for attending this call and for showing interest in Cera Sanitaryware Limited. CERA remains positive that its strong positioning in the industry and improving macros would help it deliver steady and consistent growth going forward. With this I hope I have been able to answer your questions satisfactorily. Should you need any 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 time to join the call and see you all in the next quarter. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Cera Sanitaryware Limited that concludes this conference. We thank you all for joining us and you may now disconnect your lines.