

November 08, 2022

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

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

Dear Sir,

Re.: Transcript of Conference Call

In continuation of our letter dated November 02, 2022, informing about the uploading of the audio recording of the Conference Call held on November 02, 2022, 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

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“Kajaria Ceramics Limited
Q2 FY2023 Earnings Conference Call”

November 02, 2022



ANALYST: MR. RAHUL AGARWAL – INCRED EQUITIES

**MANAGEMENT: MR. ASHOK KAJARIA - CHAIRMAN & 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
MRS. PALLAVI BHALLA - INVESTOR RELATIONS -
KAJARIA CERAMICS LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Kajaria Ceramics Limited Q2 FY2023 conference call hosted by InCred Equities. 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Agarwal from InCred Equities. Thank you and over to you.

Rahul Agarwal: Thank you Mike and good evening ladies and gentlemen. Season’s greetings to everybody at Kajaria and to everybody on the call today. We welcome you to the discussion call for Kajaria Ceramics Limited’s Q2 FY2023 results. We have with us the promoter and the senior management of the company led by Mr. Ashok Kajaria - Chairman and Managing Director; Mr. Chetan Kajaria - Joint Managing Director; Mr. Rishi Kajaria - Joint Managing Director and Mr. Sanjeev Agarwal – Chief Financial Officer. We would like to thank the management and the investor relations team at Kajaria for giving us the opportunity to host the call. I now hand over to AshokJi to start the proceedings and we will take questions after that from participants. Over to you AshokJi!

Ashok Kajaria: Thank you Rahul. Very good evening to everyone. It gives me great pleasure to welcome you to the Q2 FY2023 and second half of FY2023 earnings conference call of Kajaria Ceramics Limited. Joining me on this conference call are my sons Chetan and Rishi, our CFO Sanjeev, and Pallavi Bhalla from Investor Relations. The second quarter saw flattish volume growth but a decent revenue growth of 11% considering the inflationary environment and softening in demand which impacted our sales volume in second quarter. I can say that the second quarter was one of the toughest quarters in terms of subdued demand scenario and disruptions in natural gas supply followed by unprecedented increase in cost of gas. This dampened our margins in Q2 FY2023 as we were only able to take a 2% price hike each in the month of May and September 2022 but now one can say that the worst seems to be over as far as gas is concerned. I believe that margins have hit its low and are expected to improve hereon mainly due to relaxation in the gas price. Also we have started using alternate fuel that is LPG from November onwards at our Srikalahasti, Morbi, and Gailpur plants which will further help in reducing the coal cost going forward. The industry witnessed gradual demand pickup post festive season. Adoption of work from home models in the IT and services sector and increased aspirations are giving good growth in the housing sector. Strong consumer confidence is also being witnessed including in home buying in an inflationary and a stable domestic economic environment. Steadiness of our economy is being witnessed in the form of consistent GST collections of over Rs.1.4 lakh Crores for the past eight consecutive months with Rs.1.5 lakh Crores crossed in the month of October for the second time since the inception of GST. However persistent high

inflation and RBI's interest rate increase to combat the same is a matter of concern going forward. Export momentum has improved in Morbi after being impacted for couple of months and we anticipate that the export will touch Rs.18000 Crores in fiscal year 2022-2023.

Now for this quarter's financial performance, in Q2 FY2023 consolidated revenue from operations increased by 11% year-on-year to Rs.1078 Crores from Rs.974 Crores in Q2 FY2022 mainly because of increase in realization and some change in product mix. Revenue from the bathware segment was flattish in Q2 to Rs.74 Crores as compared to corresponding quarter previous year. Revenue from plywood segment grew by 17% from Rs.17 Crores to Rs.19 Crores in Q2. EBITDA margin for this quarter stood at 12.01% as compared to 18.54% in the corresponding quarter of the previous year. A sharp decline in margin was mainly because of the increase in gas cost by 70% from Rs.37 to Rs.62 per SCM and increase in advertisement cost by 40%. Consolidated PAT in Q2 FY2023 is Rs.70 Crores. As on September 30, 2022 working capital days were increased by 5 days to 61 days as compared to 57 days as of June 30, 2022 mainly due to reduction in creditors and other liabilities. We hope by end of December it will be back to 57 days.

Let me now quickly talk about our expansion plans. We are adding 3 million square meters bigger size GVT capacity at our existing plant Sikandrabad at UP with a total investment of Rs.80 Crores which is expected to be commissioned by September 2023. Also we are setting up a manufacturing facility outside India in Nepal through joint venture. We plan to add 8 million square meters of GVT and separate tile capacity with total investment of 250 Crores out of which our share will be 125 Crores that is 50% of the total project cost. The project is expected to be commissioned by March 2024.

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

Moderator: Thank you Sir. We will now begin the question and answer session. We have the first question from the line of Sonali Salgaonkar from Jefferies. Please go ahead.

Sonali Salgaonkar: Sir thank you for the opportunity. Sir my first question is regarding the demand scenario right now you did mention some softness may we understand whether the softness is coming more from the urban or the rural and secondly what is the kind of inventory level in the channels currently?

Ashok Kajaria: See two things are happening the demand has not yet picked up. If you recall July was very tough, September has slightly improved but October also because of holidays or pooja and Diwali it is not as good as what it should be. We are looking forward for the better situation

but I can tell you that we are taking cautious approach as far as the demand is concerned. Right now and when you asked the question whether it is urban or second tier or rural, I think all along it is the same scenario because people are still getting off the holidays, they are getting back to the system so I think we will wait and see that how things will pan out going forward.

Sonali Salgaonkar: I missed some of your initial remarks so sorry if I am repeating what is the average gas price that we saw in Q2 and what is it right now and you also did mention the alternative fuel LPG so what is the kind of pricing differential or gas cost differential between LPG and the natural gas?

Ashok Kajaria: The cost in Q2 was roughly about Rs.61 per SCM, in Q3 with all the combinations right now we are looking at around Rs.55 per SCM. In our Gailpur plant, in our Morbi plant and Srikalahasti we are only using LPG partly, Srikalahasti is LPG and some gas, Morbi will be again some LPG and some natural, and Gailpur is very little of LPG right now and gas so average price should come down to about 55 and LPG prices currently are at about Rs.53 to Rs.55 for the same depending on where the location is.

Sonali Salgaonkar: Got it. Sir thirdly on the price hike you did mention 2% price hike in tiles is there any price hike we took in either bathware or sanitary ware?

Ashok Kajaria: Bathware the price hike currently has not been taken because if you recall last year as far as the sanitary ware was concerned the gas prices went up in Morbi on October 4, 2022 and November 1, 2022 so major hike was on November 1, 2022 and then we took some price hike on April 1, 2022 but as far as bathware the key component is brass, brass prices have been slightly coming down so there is no question of any price hike at this stage. The last price hike in brass was taken on May 1, 2022.

Sonali Salgaonkar: Got it and Sir my last question would you like to reiterate your guidance that you had been giving earlier on the volume and revenue of FY2024 and any sense on the margins in Q3 and Q4?

Ashok Kajaria: We will continue to put our efforts and looking at the scenario where we are close to 15% volume growth but as I said it is a cautious approach, we are seeing how the market is behaving and we put our best efforts that is all I can tell you today as far as the volumes are concerned. As far as our margins are concerned going forward it will definitely be better than what you have seen in Q2 and at least I would say 2 percentages plus will be better Q3 and Q4. We should be 14% plus in Q3 and Q4.

Sonali Salgaonkar: Got it Sir. Thank you and all the best.

Moderator: Thank you. We have the next question from the line of Girish Choudhary from Spark Capital Please go ahead.

Girish Choudhary: If I look at the absolute volumes last five quarters the range is more or less 24 to 25 million square meters so it is stuck there so any reason to go with market share or market demand or any other constraints and when do you see this range moving higher?

Pallavi Bhalla: Are you asking that the volume is in the range of 24 to 25 million square meters and are we able to gain market share?

Girish Choudhary: I was just asking about this volume range of 24 to 25 million square meters so which has been stuck for the last four to five quarters so the reasons for that and when do you see this range moving up higher?

Ashok Kajaria: We can put our efforts and we are putting our best efforts. You know that in spite of Morbi taking a planned shutdown from August 10, 2022 to September 10, 2022 if the market has been good why would we take a shutdown, so July has been very, very tough, September has been slightly better, again October because of the festivity has been tough and I said we are putting our best efforts. We are trying to achieve 15% volume growth yearly and perform accordingly in Q3 and Q4 that is what we can say at this stage. We put our best efforts that is all I can say you at this stage. One of the biggest challenge which was the gas price has narrowed down so that is a positive thing because in Q2 the gas was an issue. The gas price hike went up crazy, there was a gas cut, if you recall at the last investor conference I said I do not want to talk about anything because gas was a serious issue but fortunately that issue has subsided and you are getting gas and the prices have also slightly come down because of combination of gas and alternate fuel.

Girish Choudhary: Sir secondly on the Nepal entry if you could give some more addition on why Nepal any colour on the market side and margin and return profile from this market?

Ashok Kajaria: Nepal is mostly for two reasons, currently they have exports of approx. Rs. 500 Crores from India, it is a market of about 25 million square meter per annum. There is an import duty at Nepal on Indian products in the range of almost 45%. Once we start producing locally, I think we will be able to capture part of the Nepal market. Currently we are doing 25 Crores of sales in Nepal. Very shortly we are meeting the Nepal government to talk about that how we can get the benefits and what kind of benefits we are giving to the country. I think for Nepal it is just like putting a plant in Chennai or Bengaluru. Nepal is just like next door neighbor so it should not be an issue on that front.

Girish Choudhary: Any colour on margin and return profile from this?

- Ashok Kajaria:** Margin will definitely be better because right now as I said there is 45% import duty and the prices what I am selling at Rs.50 thereafter everything is Rs.80 after the duty is imposed. The difference is almost Rs.30 per square feet. If you produce locally, you will get much more than export.
- Girish Choudhary:** Sir my last question this quarter we have seen other expenses so...
- Ashok Kajaria:** Advertisement went up. Last year in H1FY22, advertisement was close to 21 Crores and this year in first half the advertisement has been to the extent of 50 Crores. Last year overall we spent about 80 Crores this year we are planning to spend about 100 Crores.
- Girish Choudhary:** Thank you Sir.
- Moderator:** Thank you. We have the next question from the line of Shrenik Jain from LIC AMC. Please go ahead.
- Shrenik Jain:** Hello hi Sir thanks for the opportunity. Sir first I wanted to understand that the JV realizations have fallen 22% quarter-on-quarter so what is the key reason for this?
- Ashok Kajaria:** The value?
- Shrenik Jain:** The realization per sqm.
- Ashok Kajaria:** The realization is from Rs.330 to 324 it is 1.5% Mine is 1.74% not what you are saying.
- Shrenik Jain:** So can you help me understand that gross margins have fallen by 300 BPS quarter-on-quarter versus 1Q while our power and fuel costs have reduced?
- Ashok Kajaria:** Only power and fuel and some expenses more on the advertisement front. See if you look at the scenario overall price impact has been close to about 10% to 11% that is how we have been able to be there because if you compare Q2 last year to Q2 this year the impact is close to 10% because of the price hike. Revenue has been 11% more; volumes have been flat so that means the price hike has been close to about 10 to 11. Whatever we took last year is there plus we took some price hike in May and September, September of course one month but May price has been there so overall impact has been close to 10 to 11%.
- Shrenik Jain:** If I am reading the data correctly. The data for the production volume and revenue for own and JV has been revised so could you throw some light on whether base data has been revised?
- Pallavi Bhalla:** Which data you are talking about?

- Shrenik Jain:** Total tile production volume and revenue for own and JV total FY2022.
- Pallavi Bhalla:** It slightly got revised because of the change, the thing is we have acquired South Asian right now and earlier we used to outsource from South Asian Ceramic Limited now it is a subsidiary. So one change is this and rest is more or less same.
- Shrenik Jain:** Okay sure got it. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Onkar G from Shree Investments. Please go ahead.
- Onkar:** I was asking what is the long term solution for this gas issue what are the steps you are taking for that?
- Ashok Kajaria:** Long term solution is gas, gas, gas, but short term solution is combination of various factors like we are using partly LPG. But you see gas prices cannot sustain what it was for the year 2022-2023 the prices have to come down and all indications are that going forward starting from April next year the prices will come down so ultimate solution is gas, gas, gas because gas is an issue right now quantity is also an issue so to do that we have done a combination of gas and LPG.
- Onkar:** I was asking about the pressure you were seeing on the margin is it only because of the gas issue or is there something else also and there is something problematic in terms of demand also?
- Ashok Kajaria:** Two things you have to understand one you asked for the pressure on margins. Pressure on margins is strictly because of gas price. I have given you a certain number that the impact of Q2 versus Q2 this year is something like 110 Crores that is point number one. Number two as far as the demand is concerned I also said the demand has been very sluggish. July itself has been very tough, September slightly and again October is because of festivity it is tough so we are having a very cautious approach. We have assured about 15% volume growth we are putting our best efforts to do it, but we can only put efforts we cannot say anything beyond that at this stage.
- Onkar:** Alright. Thank you.
- Moderator:** Thank you. We have the next question from the line of Sneha Talreja from Edelweiss. Please go ahead.

- Sneha Talreja:** Good evening Sir and thanks a lot for the opportunity. Two questions from my end Sir. Sir firstly just wanted to understand with you how has been the product mix for us is it that we have sold good amount of ceramic tiles versus the GVT this particular quarter. We can get some sense on quarter-on-quarter that product mix change that would really be helpful?
- Ashok Kajaria:** First question I answer you as far as the volume mix is concerned ceramics is 46%, polish vitrified is 26% and GVT is 28%. As far as the revenue mix is concerned ceramic is 40%, PVT is 27% and GVT is 33% for Q2.
- Sneha Talreja:** Sure got that. The same was how much in let us say last year same quarter?
- Ashok Kajaria:** Revenue last year of Q2 was 38% ceramics, 31% polish vitrified and 31% GVT.
- Sneha Talreja:** Understood Sir. That was helpful, thank you and my second question is related to our capex this Nepal plant coming up and this new expansion which you are doing at Sikandrabad how much will be the revised capex standing for this year as well as coming two years?
- Ashok Kajaria:** Sikandrabad is 80 Crores out of which this year should be close to about 50 Crores and first half of next year will be about 30 Crores.
- Sneha Talreja:** Same thing with Nepal would be largely spent everything next year?
- Ashok Kajaria:** Nepal this year should be close to about 30 Crores financial year and next year should be 95 Crores.
- Sneha Talreja:** Understood Sir and Sir when you mentioned Sikandrabad large slab is it that we are adding those large slab tiles which we have recently launched in south and which are doing very well is my understanding correct?
- Rishi Kajaria:** This is Rishi Kajaria you are absolutely right. We are putting the same technology plant which we put in Srikalahasti in May the same technology we are going to put in Sikandrabad by next year and we will be the only plant in both south and north India to have this technology. All the other plants are only in the west of India in Morbi. We will be the only plant in south and north to have this technology.
- Sneha Talreja:** Sure and one more thing we are also basically outsourcing these large slabs from the western unit for the other markets right is my understanding correct?
- Rishi Kajaria:** No we are not outsourcing the big slab from western market. We are not outsourcing the big slabs at all.

- Sneha Talreja:** Not at all. Okay understood. Thanks a lot and all the very best.
- Moderator:** Thank you. We have the next question from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Thank you for the opportunity Sir. My question was if you look at the gas cost in the first quarter FY2023 which is the previous quarter it was 55 and you said for the second quarter the blended cost is Rs.62 per SCM but if I look at rupees per square meter in terms of power and fuel cost and the production volume it seems to have gone down 16% Q-o-Q can you help us understand this?
- Ashok Kajaria:** See two things happened. Number is absolutely correct first quarter the gas price was Rs.55 SCM second quarter was Rs.62, also I said there was a gas cut. GAIL has cut gas to the extent of 30% so there was a production cut also so that also impacted and going forward in the next quarter that is the third quarter it will be around same as Q1 that is about Rs.55 in the combination of gas and LPG.
- Achal Lohade:** Because I do not see a significant impact on the production numbers that means we have started using the alternate fuel in the second quarter itself?
- Ashok Kajaria:** Yes we have started using in third quarter only from the month of November. Srikalahasti started in the month of October, Morbi and Gailpur we will start in the month of November.
- Achal Lohade:** Okay maybe I will take it offline but my second question I had with respect to gross margins here gross margins I am looking at basically the sales minus the RM cost I see that the gross margins have come up by 480 BPS quarter-over-quarter is there anything to do with the product mix, is it to do with any one-offs anything to explain the gross margin reduction?
- Ashok Kajaria:** Please clarify which quarter to which quarter?
- Achal Lohade:** First quarter to second quarter Sir.
- Pallavi Bhalla:** Can you repeat your question Achal?
- Achal Lohade:** If we look at the first quarter the gross margin was 62.9% I am doing sales minus the RM cost including closing stock, etc., adjustment and that has come down to 58.1% in the second quarter. Now this could be possible if there was higher outsourcing but if I look at the own mix, actually own plus JV it is higher Q-o-Q can you help us understand this gross

margin contraction because that has driven the reduction in EBITDA margins as well while the fuel cost has come down.

Pallavi Bhalla: If you see it separately then you have to separately see the revenue and the raw material cost. If you take the revenue of only JV and your own manufacturing and subtract the raw material cost there will be a decline it is mainly because of the increase in raw material cost but if you do a total revenue and then deduct only the raw material used in own and JV then the calculation number will be little heavy so I suggest if you just go back and do it you have the revenue data for own and JV as well and then deduct only the raw material you will get the correct number.

Achal Lohade: I am doing at a consolidated level Pallavi would that change anything I am looking at consolidated numbers only when I am talking about these numbers.

Pallavi Bhalla: It will change because you see your outsourcing number has gone down from 6.4 I am talking Y-o-Y but outsourcing number has gone down.

Achal Lohade: Ideally it should lead to margin increase because the cost pertaining to own manufacturing are coming below that raw material cost especially the fuel cost.

Pallavi Bhalla: Raw material cost has also gone up. If you see per square meter we can take this separately.

Achal Lohade: Sure Pallavi we will do that and just last question if I may, with respect to bathware in terms of the Y-o-Y growth it is kind of flattish, the run rate in last three to four quarters has been between 70 and 80 Crores how do you see this where are we in terms of SKU distribution, etc., the plans for the next couple of years?

Ashok Kajaria: Last year we did 275 Crores and this year we will add up close to 370 Crores budget, next two quarters you will see a good turnaround.

Achal Lohade: Okay so where we are talking about 30% to 40% kind of jump in the second half and what is driving that Sir if there is sluggishness in the real estate?

Ashok Kajaria: Overall if you see Q2 sluggishness in all fronts so things are becoming better and as said we will try to do whatever the numbers we are talking about.

Achal Lohade: Thank you so much and I will come back in the queue for followup.

Moderator: Thank you. We have the next question from the line of Amit Bhide from Morgan Stanley. Please go ahead.

Amit Bhinde: My question was you are adding capacity in GVT one of the subsidiary is converting the PVT capacity to GVT so is it that the strategy is changing to more GV plants and higher value products in own manufacturing so does that imply in the future pricing in the owned and subsidiary would be higher and there would be a slowdown or downtake in the pricing and JV realization?

Ashok Kajaria: There is no strategy as such. Right now what we are doing we have been talking a long time for exports. We are changing one of our units JV Cosa Ceramics at Morbi from PV to GVT to look at the export market so that is the only thing which we are doing nothing else has changed.

Amit Bhinde: Got it. Thank you that was my question.

Moderator: Thank you. We have the next question from the line of. Sujit Jain from ASK Investments. Please go ahead.

Sujit Jain: Sir if I were to look at your power cost as a percentage of sales coming at 25% and 70% jump in terms of your gas cost Y-o-Y so that accounts for close to 7% increase in realization you could have done but you ended up doing something like 10% odd to 11% and to that extent the drop in margins is mainly because of that increased gas cost you have not been able to pass it on basically that is one main reason right that is one and second thing is typically you have added 12 to 13 million square meter every year in line with your aspiration of growing your volume at 13 to 15% I just wanted to know in FY2023 how much you would have added?

Ashok Kajaria: FY2023 already 12 million already sometime in the middle of May and we also will add some value by outsourcing that was the whole idea. The idea was to add 15 million square meters roughly and then we have now added South Asia which is about 4.75 million square meter and we have let go one plant which was about 3.1 million square meter.

Sujit Jain: So net addition would be 12 million square meter in FY2023?

Ashok Kajaria: Capacity wise net addition will be about 13 million plus as far as FY2023 is concerned and some outsourcing which depends on how the situation is because outsourcing is open, if the demand is right you outsource it if the demand is not right you less outsource.

Sujit Jain: The 3 million already announced and the Nepal capacity will get commissioned in FY2024 to that extent you will have 11 million square meter?

Ashok Kajaria: FY2024 will be commissioned you will get that benefit only in 2024-2025.

Sujit Jain: That is okay but I am saying directionally you will be adding similar capacity 12 to 13 million square meters in FY2024?

Ashok Kajaria: We will try to do that let us see the situation, situation on the ground is very tough. See aspiration is one thing and to face the reality is also another so we will balance that that much I can assure you. If the situation improves we will definitely work on that.

Sujit Jain: To support this aspiration eventually in the long run 14% to 15% kind of volume growth what is the kind of distribution growth that you are envisaging and what is the kind of yield for distributor growth that you are envisaging to support this 15% kind of growth?

Ashok Kajaria: I think you missed out. Last time I said that next three years we will add close to 400 to 450 dealers and this year we should be adding about 400 dealers across India and next two years every year we should add about 125 dealers across India so we are looking at a scenario were 450 dealers should be added in our basket in the next three years otherwise this volumes will not come.

Sujit Jain: Can you repeat these numbers I am sorry.

Ashok Kajaria: What I said last time I repeat again that in the next three years Kajaria should add 450 dealers across India, in the year 2022-2023 we will add 200 dealers, year going forward we should add a minimum of 125 every year for the next two years and just for your information we have already added 75 dealers in the first six months of this financial year.

Sujit Jain: Yield per dealer is that something that you are working on?

Ashok Kajaria: Return from the dealer is not the point, the point is whenever you meet a dealer within two to three months or four months you have to make good showroom for this. See once the showroom is made his need is meet because what we see in our trade is sold so the moment that showroom is made right now he may be running a shop; he may be running a distribution network of somebody else the moment a good showroom is made his job is done as far as he is concerned his sale is secured. I will give you a small example on September 26, 2022 I opened a showroom in Rewari 12000 square feet in one floor, now can you imagine in a place like Rewari which is a small area somebody will make 12000 square feet showroom, if you see that showroom you will not believe it is a tile showroom it is better than a car showroom.

Sujit Jain: Last one question what is your current base of dealers?

Ashok Kajaria: 1700 dealers across India that was on March 31, 2022, we have added another 75 dealers in the first six months and we should add at least another 125 to 140 dealers in the next six months.

Sujit Jain: Sure thank you and all the best.

Moderator: Thank you. We have the next question from the line of Keshav from HDFC Securities. Please go ahead.

Keshav: Hi thank you for the opportunity. Sir just want to understand as per the market assessment Kajaria took price hike in September while the industry has not taken a hike so what was the idea behind that and in terms of H1 how has Kajaria taken total price hike versus the industry?

Ashok Kajaria: See the gas cost has gone through the roof as we just said, the price hike all of us knows of course it is a calculated one going very gradually and we should have taken more but we cannot because of the market situation and as you rightly put it if others have not taken we had no choice because the cost of gas had gone up and as I said second quarter was one of the toughest that we have seen over a period of time where gas prices went over through the roof gas was cut so looking at that that was done and I am happy to tell you that all the price hike which has been taken since April 1, 2022 till date has been absorbed in the market.

Keshav: Okay understood. Sir as you have only taken the price hike and now you have done 20% growth in H1 so you sort of need 10% growth in H2 to meet your guidance of 15% so I think is it a fair assumption like your volume guidance is in fact might be 15% growth this year and also next year you will be doing 15% as of now nothing to worry in this front?

Ashok Kajaria: First quarter last financial year was a full period so if you look at the first quarter number and merge it with number two and say that no, no I have done a good job believe me it is not a good job because July and September has been very, very tough so we are having a cautious approach, we are putting our best efforts to achieve whatever we have assured and I can sincerely tell you on behalf of the company and all our people we will put our best efforts but let us see how things shape up. It is a conscious approach that we are taking because we do not want to make any mistake so just for the heck of it that I have to make certain norms I think that is not necessary. As the market demands I can assure you that we will fulfill the requirement of the market.

Keshav: Okay understood. One last question from my side so how is the channel inventory now?

- Ashok Kajaria:** Channel inventory people are not keeping much. See on an average the dealer keeps about 30 to 40 days of inventory because of the range of products. Today Kajaria by itself has almost 2800 to 3000 products at least he has to keep almost 25% to 30% of that range to satisfy the customer, he does not keep more than that but at least 500, 600 to 700 depending on the dealer size he has to keep that inventory.
- Moderator:** Thank you. We have the next question from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** Hi thanks for the opportunity. Couple of questions. Sir first question is can you give some details on the regional gas prices usually you do indicate on north, west and south if you can help with those numbers that would be great?
- Rishi Kajaria:** So for Q2 FY2023 the north is roughly about Rs.60 per SCM, south is about Rs.69 per SCM, west is about Rs.69 and the cumulative is about Rs.62 per SCM am I clear.
- Ritesh Shah:** It was indicated that the LPG price was around 53 to 55, now if we look at the numbers what you have indicated it is higher than the LPG price so Sir how should one understand our competitiveness versus other players who are purely on LPG is that a right way to look at?
- Rishi Kajaria:** No LPG has just started so this impact will come in this quarter, last quarter we hardly had any impact from this quarter we should start getting the impact of LPG.
- Ritesh Shah:** Sir my question is how should we look at our competitive positioning on the cost versus the peers which is entirely on LPG so one can contest that the number of players who are on LPG are very few probably that number might increase by a few 100 units going forward might not really impact us more but if I had to look at it from a cost curve positioning how should one understand this?
- Rishi Kajaria:** We understand that Morbi is shifting more into propane but we have also taken a shutdown of the plants because we were not able to sell and we are expensive and as we go forward our cost will down as well. We are working on the alternate sources of fuel and it will go down as we go along.
- Ritesh Shah:** So we are betting on a higher consumption on LPG even for us which will bring us at parity or make us as competitive as peers.
- Ashok Kajaria:** Now that is one point temporarily but as I said earlier in one of my points that people are expecting by April the gas prices will also come down.

- Ritesh Shah** Sure that is very helpful. Sir, my second question is on export trend if you could give some numbers on monthly exports out of Gujarat I think that would be quite useful and earlier you had given a number on full year basis around 15 to 16000 Crores?
- Rishi Kajaria** I think we still feel that yes by end of financial year Gujarat will export almost about 17 to 18000 Crores of material and exports is going on pretty big from there.
- Ritesh Shah:** That is useful and Sir last question we have been adding capacities can you indicate the amount of cost saving that we will have probably from logistics or operation as like employee cost, marketing how should we look at that specific variable?
- Rishi Kajaria:** We are not increasing any manpower in the company and we are looking at how the numbers are, we also look at the advertisement cost very judiciously, we will make sure there is no any extra additional cost.
- Ritesh Shah:** Right Sir. Sir I was trying to quantify what sort of impact we will have so we are very competitive given good part of our additions are coming in and we are not adding any head count it might be an element of logistic cost saving given we are getting into Nepal so just trying to quantify is there a number that we are looking at that we are targeting?
- Rishi Kajaria:** See Nepal is completely separate so do not attach that to it but right now we cannot quantify, it is very difficult to quantify, as we go along we will definitely get an impact for sure.
- Ritesh Shah:** Sure thank you so much for the answers wish you good luck.
- Moderator:** Thank you. We have the next question from the line of Lavanya from UBS please go ahead.
- Lavanya:** Thank you for the opportunity. Sir most of my questions are answered but I just wanted to check so because of shift to propane LPG usually this needs some additional capex for the plant so we are shifting a portion of our north and some plants so did we have any capex here?
- Chetan Kajaria:** So the capex is minimal there is no capex in shifting from gas to propane we are using only LPG currently.
- Lavanya:** So that would need only minimal capex not much at all Okay got it and also on the bathware can you help me with the capacity utilization at this point of time and I understand that the new capacity which we are planning that is also to come in this month or next month so what is our utilization in Q2?

- Chetan Kajaria:** Our Q2 our utilization is almost about 85% and the capacity expansion in faucet will be it is a very small investment which we are doing so that it will come by January and the sanitary ware plant will only come by March 2024. We are going to start working it from January and it is only come after 15 months.
- Lavanya:** Okay got it and I just missed the advertisement expense in this quarter in first half can you just help me with that number Sir?
- Chetan Kajaria:** So in the first half we spend roughly 50 Crores in this financial year 2022-2023 and we are looking at a similar number going forward for the remaining six months.
- Lavanya:** Okay for this quarter what was the extent?
- Chetan Kajaria:** Q2 was 31 Crores.
- Lavanya:** Okay got it thank you so much.
- Moderator:** Thank you, we have the next question from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** No thank you. My questions got answered thank you.
- Moderator:** Thank you. We have the next question from the line of Manish Mahawar from Antique Stock Broking please go ahead.
- Manish Mahawar:** Yes, just in terms of domestic market what is our expectation for this FY2023 growth or market size?
- Chetan Kajaria:** The market size should be roughly 21000 Crores for the year ending 2022 and around 22000 Crores for year ending 2023.
- Manish Mahawar:** Okay we are expecting 5% growth for the domestic industry for this year right and we will grow around maybe we are anyways guided for 15% volume growth definitely our revenue growth will be better than the volume growth right for this year Okay and in terms of second quarter I think couple of times you said it was really a tough quarter in terms of July and September month but I just want to understand and we are hoping for a better second half and recovery from November onwards because October you already highlighted I think because of festival there was slowdown so what was the specific reason of this slowdown or tough quarter in July and September particularly in second quarter?

- Chetan Kajaria:** As you know the entire building sector had seen a slowdown, Siemens results are with you, Havells results are with you so I do not have to explain that much it was a tough quarter, demand was sluggish and cost of everybody had gone up, in cement and cost of coal and fuel that they were using went up, in our case gas prices went up so that was the scenario. Things are stabilizing but as far as India is concerned and going forward everybody is positive I think we should also look at a positive scenario.
- Manish Mahawar:** Okay and in terms of export I think Sir you have already highlighted 17000 to 18000 for export this year right so any specific reason export should pickup or any particular geography where the market is seeing a demand?
- Chetan Kajaria:** We are very competitive I can say. The biggest exporter was China of course because of its capacity and as we all know there is a lockdown because of COVID gas prices went up over there so today India has become one of the key players as far as the export market is concerned and first six months of this year the exports has been close to about 7500 Crores, next 6 months we are looking at a scenario where it should be close to about 10500 Crores. As a country we are very competitive and that credit goes to Morbi because they are doing good export from there, they are literally selling to almost 92 to 95 countries across the world.
- Manish Mahawar:** Okay and there will be some benefit of Europe also right Europe because higher energy cost has some impact so that is also supporting Indian export market?
- Ashok Kajaria:** You have said the right word. Europe will be a big market. Europe was looking at just to share with everybody; Europe was looking at putting antidumping. The initial studies they have put antidumping of only 10% on India more or less and 48% on Turkey so that market will open up in a big way for India in the next month or so.
- Manish Mahawar:** Okay understood and lastly Sir in terms of the LPG, propane or gas as you have already said our future is in terms of a gas right so LPG and propane are more of a temporary I think in terms of spread available so that is a temporary opportunity for industry as such right Sir?
- Ashok Kajaria:** I also said that by April onwards the gas companies are looking at a scenario they are already talking about it that by April the gas prices should come down. If they come down then you do not require LPG you do not require propane this is all the stop gap arrangement which you have no choice right now.
- Manish Mahawar:** Understood Sir thanks and all the best Sir.

- Moderator:** Thank you we have the next question from the line of Harsh Pathak from the B&K Securities. Please go ahead.
- Harsh Pathak:** Hi good evening and thanks for the opportunity I wanted to understand with regards to our Nepal expansion how well would we secure on the raw material availability and gas supply arrangement if you can throw some light there please?
- Chetan Kajaria:** So there is already a plant running in Nepal we are not the first one to experiment. So raw material is already there in abundance plus you will also experiment partly in abundance partly it is being imported from India and what was the second question.
- Harsh Pathak:** Gas supply availability?
- Chetan Kajaria:** The fuel also will be coal what we will be using.
- Harsh Pathak:** Since we would be importing some materials from India so any import duty is safe on the raw materials?
- Chetan Kajaria:** There is some import duty on the raw material that is why the cost is high in imports and that will get a benefit of producing locally.
- Harsh Pathak:** Okay sure. I was more asking from the raw material front.
- Ashok Kajaria:** There will be some duty but we will talk to the government and see what benefit we can get out of that.
- Rishi Kajaria:** But that duty is not very big, it is not very huge, marginal duty.
- Harsh Pathak:** Sure and any plans to cater to the northern or the north eastern market from this plant any free trade agreement that we would enjoy some light?
- Rishi Kajaria:** We will try to sell the Nepal production in Nepal itself. Kathmandu is a big market. We will try to sell the entire production there itself.
- Harsh Pathak:** Okay Sir so these are my questions. Thank you very much.
- Moderator:** We have the next question from the line of Rahul Agarwal. Please go ahead.
- Rahul Agarwal:** Thanks. Sir one question on the background of the joint venture partner where in Nepal how the group balance sheet strength what do they do and how comfortable are you doing business with them?

- Rishi Kajaria:** So we have done all the background check on them it is a solid group they also own cement companies it is a big group and they have done all the due diligence and we are comfortable with the group. We have only done everything after doing the due diligence of the group.
- Rahul Agarwal:** Okay and secondly on the non-tile business generally bathware and plywood the EBIT there is pretty low it is almost zero any particular reason or the growth in sanitary ware being flat is that the only reason there?
- Rishi Kajaria:** Yes because of the growth in the sanitary ware is flat that is why the EBITDA margin is very less and as the volume increases this division has made good numbers earlier as the volumes increase the numbers will definitely come.
- Rahul Agarwal:** The ad expenses were also high for that division as well is it?
- Rishi Kajaria:** Little bit not that high little bit high, but you need to build the brand otherwise to grow about 30% year-on-year we need to have little bit of branding so that the people have confidence in buying Kajaria products.
- Rahul Agarwal:** Sure and lastly on the revenue breakdown given in the investor presentation I saw adjusted revenue added of 10 Crores for the quarter and about 17 Crores second half anything major we are doing here or it is just going to be a small number going forward?
- Ashok Kajaria:** Adhesive we were doing. Now adhesive we want to go in gradually in a positive manner because the bigger the tiles they use adhesive instead of cement.
- Rishi Kajaria:** So we are looking at taking this vertical seriously and hiring senior people from the industry. This year targeting around 50 Crores of turnover in adhesive division and next year we should also grow in a similar high expansion growth in this vertical.
- Rahul Agarwal:** This is purely restricted to adhesive use for tiles is it or is there anything else?
- Rishi Kajaria:** There are some cleaners also but it is mainly for tiles. Grounds and adhesives.
- Rahul Agarwal:** Alright. Thank you so much. I will come back in the queue.
- Moderator:** Thank you. We have the next question from the line of Amit Bhinde from Morgan Stanley please go ahead.
- Amit Bhinde:** How much percentage of blending of LPG are you looking at for the next six months?

Ashok Kajaria: Right now what we are talking about wherever we can fit in LPG we will fit in LPG installation itself takes about 30 to 45 days and whatever we are doing I think it will be more or less finished by the end of financial year 2023 and as I kept on saying it scenario says that by April next year gas prices should come down. So it is a very small thing that we are talking about right now.

Amit Bhinde: Alright got it. Thank you.

Moderator: Thank you. We have the next question from the line of Rajesh Ravi from HDFC Securities please go ahead.

Rajesh Ravi: Hi Sir good evening, I have few questions first on the demand front second quarter as you mentioned has been tough one, has been flattish and even October has been a festive month and second if I look at export numbers so far the momentum is still subdued and even what we hear is few tiles companies talking about that because of the demand slowdown in US market there is demand from outsource because US is a big market for Indian tiles industry and even Europe where we are getting advantage on the cost front for sure but amid all this war and inflation are you seeing that exports outlook may remain subdued and that may impact the volume growth for the industry as a whole?

Ashok Kajaria: As I said US is one market. There are 90 to 95 countries where India is exporting number one. Number two you are as a country very, very competitive, please make a note of that and that is why the exports will pick up and I am seeing a figure of 18000 Crores for this year next year this figure could go as high as 20 to 25000 Crores because we as a country have become very competitive.

Rajesh Ravi: Okay and domestic what triggers you looking at Sir healthy volume growth at least this financial year?

Ashok Kajaria: Market should start looking better there is no such word as trigger.

Rajesh Ravi: Okay and second on the Nepal expansion you have earlier mentioned this market size is 25 million square meter?

Chetan Kajaria: Market is about 25 million square meters.

Rajesh Ravi: Like would we be capturing a sizeable market there you would be targeting everything into Nepal and by what timeframe do you look at full 8 billion in the sense of sales in Nepal?

- Rishi Kajaria:** The market was about 25 million which is growing and we are putting 8 million square meter plant. We do plan to capture large share of the market and right now the plan is to sell locally in Kathmandu only, Nepal only. There is lot of issue in import and the Morbi material is already going there. With our production there and without any duty impact I think we will be able to capture large size of the market.
- Rajesh Ravi:** 8 ms production can be achieved over FY2025-FY2026?
- Rishi Kajaria:** First year it may be little less; by second year we should do definitely do the full production.
- Rajesh Ravi:** Last question this LPG propane what percentage of total fuel mix, power mix would be coming through this propane in Q3 approximately.
- Ashok Kajaria:** I think I have already answered that. The cumulative combination should be around 55 rupees.
- Rajesh Ravi:** 55 rupees we mentioned which is great 10% fall I am saying percentage of the total...
- Ashok Kajaria:** It is very hard to say at this moment. It will be close to about 15 to 18% only.
- Rajesh Ravi:** Okay great Sir. All the best thank you.
- Moderator:** Thank you that was the last question. I would like to hand it over to the management for closing comments.
- Ashok Kajaria** Thank you Rahul. I think it was a good interaction. Wonderful questions asked from the people. Thank you very much for them for participating in this and on behalf of my sons and my entire team I thank you everybody in the organization. Thanks a lot.
- Moderator:** Thank you. On behalf of InCred Equities that concludes this conference. Thank you for joining us. You may now disconnect your lines.