



“ARO Granite Industries Limited Q4 2016-2017 Earnings Conference Call”

May 04, 2017



ANALYST:

MR. GAURAV SUD - KANAV CAPITAL ADVISORS

MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to ARO Granites Q4 FY2016-2017 Earnings Conference Call, hosted by Kanav Capital Advisors. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gaurav Sud from Kanav Capital Advisors. Thank you, and over to you, Mr. Sud!

Gaurav Sud: Thanks Lizaan. Welcome everyone and thanks for joining this Q4 FY2017 earnings call for ARO Granite Limited. The results and investor update has already been mailed to you and it is also available on the stock exchange. In case anyone does not have a copy of the press release, please do write to us and we will be happy to send it over to you.

To take us through the results of this quarter and to answer your questions we have today with us, Mr. Sunil Kumar Arora, who is the Managing Director, Mr. Sahil Arora, Corporate Head, International Marketing, Mr. S. Sundara Rajan, the CFO and Mr. Sabyasachi Panigrahi, the Company Secretary. We will be starting the call with a brief overview of the company’s performance and follow it up with a Q&A session.

S. Sundara Rajan: ARO Granite announced its financial results for the quarter and the revenue for the company has increased from 215 Crores in FY2016 to Rs.238 Crores in FY2017 showing a growth of 10.7%. EBITDA increased by 45% from 21 Crores in FY2016 to 30.67 Crores in FY2017. The PAT of the Company also increased significantly by 115% from 5.86 Crores in FY2016 to 12.62 Crores in FY2017.

The other details in terms of the operational overview we have already shared in the presentation. We will handle the broad outlook and other things in the Q&A session. So with that we will start the question and answer session. Madam, can you open the floor for Q&A.

Moderator: Thank you. Ladies and gentlemen we will now begin the question-and-answer session. We will take the first question from the line of Prabhash Anand, an individual investor. Please go ahead.

Prabhash Anand: Good evening Sir. Sir I have a few questions. Let me start with as I see rupee is strengthening, so what was the impact on this quarter in this number?

S. Sundara Rajan: Definitely it impacts our quarter because of the rupee becoming strong and definitely it makes our sales also down and the profitability affects the profitability also.

Prabhash Anand: Sir in terms of numbers like what would be the quantum?



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- S. Sundara Rajan:** It is very much reflected in the sales figure itself. So in terms of numbers I would say it makes a difference of about 6% to 7% at least, which is huge profitability.
- Prabhash Anand:** Do you have any hedging policy for rising rupee against dollar?
- S. Sundara Rajan:** Actually more than the hedging policy we go for packing credit and foreign currency from a bank and then as and when we get our payment, it is paid to the banks again. So as such we do not lose day-to-day on the remittance. We only lose when we take new packing credits. So during this quarter when we had the packing credit it was 6% to 7% lower. So it is like auto hedging, you can say.
- Prabhash Anand:** In this quarter, which new markets you forayed into?
- Sahil Arora:** Can you repeat the question please?
- Prabhash Anand:** In this quarter, which new markets you forayed into?
- Sunil Arora:** In this quarter, we ventured into the Thailand market, the Singapore market. These are two major markets that we ventured into this quarter. As of previous one year we have been venturing into markets of Slovakia, which has become a **(audio cut) 05.58**.
- Sahil Arora:** I think my son is off the line, anyway I can continue.
- Prabhash Anand:** Could you give us a sense of American market and the challenges that you are facing there?
- Sahil Arora:** American markets right now the main challenge what we are facing is the competition from Engineered Stone. Engineered Stone is basically quartz stone, manmade stone, which is taking away a major part of our market share and on top of it also now this porcelain ceramics slab have also come into market which is also taking away our market share. So overall the requirement for granite for the counter tops has been dropping in the US market, but on the other hand from last many years we had been venturing into different markets like right now we work with around 50 countries around the world, so even the sales are dropping in USA but we are covering up with other countries.
- Prabhash Anand:** In terms of colour what are the new colours? Are there any trends now and if colour specifically where are you sourcing these colours in India?
- Sahil Arora:** This is a little bit of a challenge what we have is right now especially in USA or European they like only white, grey and black. Only three shades which are moving the most. The fashion for green, blue, browns have really come down, I believe or even gold or green finish. So that has also limited our range of colours. Like your question regarding sourcing in India, yes, we have queries for black. In fact black from India absolute black or jet black from India is one of the best



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qualities in the world and then of course we have greys and whites but my point is not this much. It limits a number of colours like for example couple of years back we were selling more than may be 40 to 50 colours in our range regularly though we have almost like 150 colours with us but on a regular basis we would sell out 40 to 50 colours, but these days we are selling may be just 10 to 12 colours, which also makes our business a little difficult.

- Prabhash Anand:** Thank you for taking my question. I will come back in the queue for further questions.
- Moderator:** Thank you. The next question is from the line of Siddharth Agarwal, an individual investor. Please go ahead.
- Siddharth Agarwal:** Thanks for giving me an opportunity to ask these questions. Sir, my first question is we were spending some time on trying to build up a warehouse to better display our inventory on our products. So if this warehouse fully operational now?
- Sahil Arora:** Yes it is completely ready now and it is completely operational. We already displayed our material and as you can see in our results it has definitely helped us in the last financial year because of the warehouse. Like we explained is when we started this factory in Hosur area we were the first one about 20 years back. Today, we have more than 50 factories in this area so what I am trying to say is that the competition is so high that we have to be ahead of the competition in some way or the other in the right way. So this warehouse helps us in offering material to the customer there and then and today market trend has also changed completely. Earlier our customers would give us orders and they would wait for about two to three months, as the demand was much higher than the supply. Today when the supply is much more than the demand, they do not want to wait. They want what is ready with you. Hence this warehouse is the business requirement of today's market actually. With this only we will be able to survive or beat the competition.
- Siddharth Agarwal:** So does that mean we have to keep a much larger inventory now because of the changing business dynamics?
- Sahil Arora:** That is why I wanted to explain why this warehouse is helping. The decision has been taken to set up this warehouse, yes definitely it is not only the capital cost, it is also that you have to keep the extra inventory. Like I was explaining today the customers are not willing to wait. They want ready stock. If they do not have ready stock they go to the other companies at least. It is a business requirement. To be honest with you it is today's business requirement because of the high competition.
- Siddharth Agarwal:** I think to one of our previous participants you answered a question saying that certain colours are out of fashion now especially the browns?



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- Sahil Arora:** In some countries, not all the countries, in some countries.
- Siddharth Agarwal:** So we do not see an inventory issue if we are structured with a lot of those colours, which are not in trend?
- Sahil Arora:** We are careful. We are well aware of the trends well in advance like we participate in four exhibition every year. So we are very much aware of the trends, which are happening.
- Sunil Arora:** How it does affect is that it limits the number of colours that we are able to sell on a regular basis. So like Mr. Sahil Arora was mentioning last year we were selling may be 50 colours on a consistent basis now it is only 10 to 15 colours that we are selling on a consistent basis which fall under these broad colour categories so it is not that we are building up inventory on these colours it is just that we do not have these colours that are abundantly available which we can sell. So nor are we buying them. The quarry owners are definitely suffering in this case but it is also not giving us an option to increase the portfolio of colours that we have.
- Siddharth Agarwal:** Thanks for that. How have our realization trended for slabs and tiles this quarter. Are they same?
- Sunil Arora:** The realization for slabs is definitely increasing; however, for tiles it is the same. It is still stagnant.
- Siddharth Agarwal:** So it is stagnant year for tiles but for slabs it has improved?
- Sunil Arora:** Yes.
- Sahil Arora:** Slabs and plus we are growing into that new area what we started up to size. That too size is basically more value added, so from tender slab we process material, which is ready to use. That is the area we are growing for the last six months. That is the area where we made our new investments and that is what is giving us extra business.
- Siddharth Agarwal:** So to what proportion of our revenues does this cut-to-size segment contribute now.
- Sahil Arora:** We just started six months ago only, so right now our average monthly sales are about 170 to 180 containers out of that it is four to five cut-to-size but we hope to take it to around 25 containers per month.
- Siddharth Agarwal:** Roughly what would be the incremental difference, say suppose as compared to slabs and cut-to-size for the quarter?
- Sahil Arora:** Time consuming here. Value ad is stabling now on what kind of value addition it is. It could be even from 25% to sometime even 50% depending on how much what we have done in a particular project job.



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- Siddharth Agarwal:** Sir, given that we in this industry we are seeing a lot of it is a dynamic industry and we are seeing quite a few challenges both from competition perspective, currency perspective, etc., so what are we doing to control our costs to remain a little bit more competitive?
- Sahil Arora:** That is definitely most challenging part for us in the last couple of years to bring the cost down; yes we have always taken all the steps wherever possible to bring the costs down. Yes of course there is certain limitation because like for example good raw material is totally a seller's market.
- Sunil Arora:** One of the areas that we are looking to save a lot of expenditure is on our power front, our monthly requirement is of 5 megawatts, so in that aspect what we eventually are now into is to buy power from third party which is called captive power consumption, so that should save anywhere between 7 and 14 lakhs per month on an 11 monthly basis. This is not a 12-month supply. It is 11-month supply and that should help us in the coming years to reduce costs.
- Siddharth Agarwal:** If I may ask the last question so looking at the balance sheet, we have roughly 112 Crores inventory. Would it be possible to give us a breakup of this inventory age wise that how much of it is three-months old, six-months old, one year old or even older beyond that.
- Sahil Arora:** Yes we do have a complete chart with us age wise. I will put you on to our CFO. He will probably be able to give you full details.
- S. Sundara Rajan:** The inventory age wise is less than one-year. It is Rs.71 Crores and more than one year, less than two year is Rs.18 Crores and more than two years, less than three year is Rs.15.2 Crores and more than three less than four is Rs.6.77 Crores and more than four years it is Rs.91 lakhs and more than five years Rs.33.52 lakhs, base of inventory.
- Siddharth Agarwal:** Thanks a lot for patiently answering all my questions and all the very best.
- Moderator:** Thank you. The next question is from the line of Siddhart Bhattacharya from Suyash Advisors. Please go ahead.
- Siddhart Bhattacharya:** I just wanted to understand the competitive intensity in the US market, I believe there was some kind of marked jumping by the Brazilian and other South African country in terms of granite, so how is the competitive intensity right now?
- Sahil Arora:** Our main competitors for US market are granites are from Brazil and the only advantage what we have is the colour, what we have in India they do not have in Brazil. For example black, and absolute black, which is one of the top quality in India, so those colours we do not have it and similarly we have few colours where we have edge over them and then definitely of course Brazil they have good market share in US market, but as an Indian have our own market share.



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Siddhart Bhattacharya: Within the common colours what is the pricing advantage that they have, what is the price difference between what you are selling at and what Brazilian competitors are selling it?

Sunil Arora: Brazilian sell to tax material, they sell basic material and they sell exotic materials. So exotic materials there is no real fixed price. It varies anywhere between \$10 dollars a square foot all the way we have \$35 per square foot for some of the garden materials. When it comes to basic materials, their basic materials have usually priced below \$3 a square foot whereas majority of Indian colours befall in the range of \$5 to \$6.

Siddhart Bhattacharya: In terms of your customer profile, I just wanted to understand how sticky are your customers or is it that they keep on shopping for better sources year-after-year?

Sunil Arora: If you see in major market beside the US, most of our customers are very sticky. It is only the US market which is where they shop around but within the US market also we have five or six top customers who are the larger wholesalers in the US who do stick to us quite strongly and we have been working with them for the last 25 years.

Sahil Arora: They are very loyal to us and they give us at least first choice they give us. As long as we are able to match the market prices, they understand few percentage different because of our quality or delivery relationship, service we provide them actually, so obviously we are able to retain our customers with long relationship.

Siddhart Bhattacharya: Thank you for answering my question Sir.

Moderator: Thank you. The next question is from the line of Dhruv Agarwal from Creseta Investments. Please go ahead.

Dhruv Agarwal: Good afternoon Sir. Thank you for taking my question. I have some questions like what should be your capex for FY2018?

Sahil Arora: Sorry, once again.

Dhruv Agarwal: Your capex for FY2018, capacity expansion if any if you have planned for FY2018?

Sahil Arora: At present, we have no plans because right now whatever we made earlier same plans are there itself, but nothing new, something nothing complete as of date. Anything comes up; we will let you know sooner, we are still in the process of thinking and finalizing things.

Dhruv Agarwal: Regular maintenance capex whatever you have only that you have?

Sahil Arora: Yes that is right.



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Dhruv Agarwal: After we have business went down for FY2016, you have bounced back really well in this year, so are you confident that this trend will continue and we can see EBITDA margins going upwards or what is the guidance that you will give for FY2018?

Sahil Arora: Our main concern right now is the currency actually, currency from \$68, \$69, it has come down to \$64. Euro also from 75 it has come down to 70, so that really effects the topline and the bottomline, so it is difficult to but definitely we still very confident whatever the corrective actions we have taken like we were saying that we have added cut-to-size and improvement we have done in a company cost cutting we have done, we should be able to keep up with at least minimum same figures for sure.

Dhruv Agarwal: Thank you and the tax percentage for this full year has been 23%, so going forward can we expect the same levels or it should also go up?

Sahil Arora: Tax level will go up now because earlier we have been utilizing MAT, now MAT has been completely utilized, so the tax level will also go up yes.

Dhruv Agarwal: So what should be the range for it?

Sahil Arora: 34% yes.

Dhruv Agarwal: Normal 34% okay and Sir do you have any Quartz business as on date, the Engineered Stone business, do you have any Quartz business as on date?

Sunil Arora: No we do not have, we are only into natural stone, natural granite business, and we have not gone into Quartz business. We feel there is a conflict between our line and we were not be interested in the Quartz business, so we like to whatever we do we want to stick to our natural stone business.

Dhruv Agarwal: My last question on the overview, so how do you see the year coming forward now that how are the Brazilian exports of granites going into the US and how are you planning to able to diversify into new markets for this year ahead, if you can give an overview on your strategies?

Sunil Arora: They are already selling to more than 50 countries around the world, out of which US only comprises about 20% of the market. Europe is a much larger market for us where we have good old loyal customers and also the 20% that we have in the US is mostly from our old loyal customers. As far as US is concerned, the currency in Brazil has fluctuated to such a level that they have been able to drop their price by almost 50%, so of course that does affect our business, but in Europe most of the Brazilian colours are not popular, they prefer more of Indian shades, so this natural barrier does help us a lot in retaining customers.

Dhruv Agarwal: Okay. Thank you so much Sir.



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Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: Good evening Sir. I had couple of questions. Sir the first question on Brazilian versus our Indian granite, so basically if I see currency wise Brazilian has appreciated versus INR, so did we get benefit because of that at least this year?

Sunil Arora: We are selling only in two currencies. We are selling in USD and Euro and even the Brazilian they are selling only in two currencies, USD and Euro whereas we are concerned 75% of our sales is in USD and 25% in is Euro whereas Brazil is concerned it is among 90% in USD. You can see the currency how it has fluctuated as of January 31, 2015 their currency were somewhere in the range of 2.4. As of January of this year 2017 their currency is in the range of 3.6. There is almost 40% difference in their currency, which has helped them reduce their prices in dollar terms. Brazilian real time realization remains the same, but the Brazilian dollar term prices goes down, so that is what has affected our business.

Aman Vij: No that I understand, but compared to USD Indian and USD Brazilian, so USD INR in spite of going say 10%, 15% up in the last few months, but overall it still the quantum in terms of Brazilian Real should be less competitive at least for this year 2014 to 2017 yes, they have fallen like 40%, 50%, but if you see only this year have become more competitive compared to Brazilian.

Sunil Arora: If you see the Indian rupee has gone down in the last three months, it has gone up from Rs.69 to the dollar to Rs.64 to the dollar, so there is a 5% difference in the exchange rate. So that 5% is directly hitting us because when we export for example if exporting a slab at \$10 per square foot earlier we were getting Rs.690, now we are only getting Rs.640, this is the Rs.50 difference, now it is going to help us. It is going to harm us.

Aman Vij: Okay, I will take this offline. I am not able to explain it. Coming to the US market share, what is the market share of Brazilian granite and what is that of Indian granite and what was it three years back roughly?

Sunil Arora: If we look at it first if I see US market into two segments, the natural stone segment and the engineer segment. So this year the engineered segment is about 40% of the market whereas natural stone is 60% of the market. Five years ago engineered stone was just 10% of the market and natural stone was 90% of the market. Providing the natural stone segment into two parts which is Brazil and India, this year Brazilian stone is about 95%, Indian stone is only about 5% whereas five years ago, the split was 85% Brazilian, 15% India.

Aman Vij: The only for US market you are saying?



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- Sunil Arora:** That is only for US market.
- Aman Vij:** If you can give the similar numbers for European market?
- Sunil Arora:** European market, we are looking engineered stone in the range of 25% of the market and we are looking out of the natural segment, we are looking at the Indian stone being around 70% to 75% and 25% Brazilian. So it is the other way around in the rest of the world is only the US market where you see where they prefer Brazilian stone over Indian stone.
- Aman Vij:** Okay and what was it say roughly three years back?
- Sunil Arora:** In Europe, it was the same. Europe is the far more congested market where the fashion in the housing industry or the cover top industry does not change. In the US, it changes every year.
- Aman Vij:** Okay and just for my understanding this trend in US specifically from natural to engineering, is it some kind of they have become more cost conscious or just the fashion change of what led to this massive showing in?
- Sunil Arora:** It is just the fashion change. So right now they are preferring white greys and black shades. As far as black shades are concerned, they have no choice but to buy natural stone, but for whites and greys they have good alternative in Quartz, currently if you see architectural trend in the US, it is more of a bit let us take a very straight line type of architecture that is going on over there and Quartz is more suited to us that kind of architecture.
- Aman Vij:** Okay and in terms of colours, so roughly could you give the breakup of say what is the percentage of black colours versus so that to understand if the trend of colour is also shifting towards?
- Sunil Arora:** Our production for absolute black colour is 30% and which has been very consistent right from the beginning, 30% we process black material, 70% other colours.
- Aman Vij:** Okay, but I am asking more from the demand side, so in US?
- Sahil Arora:** Of course, the same way, as for the demand also, US market we sell almost like 30% is the black material and balance are the colour.
- Sunil Arora:** And other colours are mostly in the range of white, green and peach.
- Aman Vij:** Okay and coming to the sourcing of the material. I think the most of the raw material in south is now either closed or in some kind of problem and we started getting raw material from Rajasthan, but I do not think, so do we get black colour from Rajasthan as well?



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- Sunil Arora:** Black colour basically from all Karnataka, Tamil Nadu and Andhra.
- Aman Vij:** Okay, do you think that raw material sourcing problem because I think we needed to import also, we still do?
- Sunil Arora:** 30% we still import, 70% we cut the mistake material. So, out of all the quarries that are closed in the south, all of them were closed only in the Tamil Nadu region. So, we still have quarries that are operating. Within Tamil Nadu they have many quarries that we have opened including all the black quarries. The quarries that are closed right now only belong to the Madurai district of Tamil Nadu. So, only those quarries are closed. Andhra, Karnataka all the quarries are running and we are still getting material from Rajasthan and of course we are importing 30% of our requirement from other countries.
- Aman Vij:** Okay, and that will be mostly from imports?
- Sunil Arora:** Imports, we are getting about 50% from Brazil, Norway, Finland and parts of Africa.
- Aman Vij:** Okay, and so there is no supply issue in those countries as of now?
- Sunil Arora:** As of now no, right now there are no issues.
- Aman Vij:** Lastly on the growth from now on, say for the next couple of years. So, if you divided into two parts say US, Europe and rest of the other countries. So, roughly what kind of growth do you see in each of these regions?
- Sunil Arora:** Actually to be very honest the US market is very unpredictable; so, it is very hard to even give you a short-term view of the market that let you on long-term view. Europe is a very consistent market. So the growth rates will continue in Europe and our top countries of Europe for example Poland we have been consistently growing. This year also we had a 5% growth in Poland. Germany, which is the next biggest market; we have had substantial growth of over 36% in the market and then countries like Slovakia, which is a new market for us is becoming quite large. So, we see that there will be a regular growth in the European market whereas the rest of the world is concerned, Japan is a very large market for us, but that is a very consistent market where there has been no growth or decline over many years and the same with Australia and New Zealand. These are the biggest markets that we export to.
- Sahil Arora:** Plus you keep on adding new countries every year like, recently you added Thailand, Slovakia, and few more countries.
- Sunil Arora:** Yes.



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- Aman Vij:** So, US you were saying is an unpredictable market; so is there any kind of signs we can see may be not now, how will we be okay if the trend is shifting towards back to granite?
- Sunil Arora:** Well, everything depends on the fashion of the time. So, architectural magazines, those are the best indicators of what is to come next. So, currently if we see the architectural magazines they are all straight lines, which are more suited towards Quartz and the Engineered Stone, once we start seeing that more and more focus is coming back into contemporary or traditional architecture; that is way it favours natural stone.
- Aman Vij:** And you believe it to redevelop fashion; nothing due to cost?
- Sunil Arora:** No, there is nothing to do with the cost, only with the fashion.
- Aman Vij:** Thanks a lot for answering all the questions.
- Moderator:** Thank you. The next question is from the line of Ashish Kacholia from Lucky Investments. Please go ahead.
- Ashish Kacholia:** Sir, you indicated that Brazilian granite costs up to \$2-\$3 something like that, is that correct?
- Sunil Arora:** The basic colours.
- Ashish Kacholia:** Basic colors and we are in the \$4-\$5 range?
- Sunil Arora:** Yes, \$5 to \$6.
- Ashish Kacholia:** \$5 to \$6?
- Sunil Arora:** Yes.
- Ashish Kacholia:** Okay, and what is the relative cost of Quartz and porcelain?
- Sunil Arora:** The other thing as we mentioned was the Brazilians are in the \$3 range. They are also in the \$10 to \$35 range and you are asking the relative cost of porcelain or the relative cost of Quartz?
- Ashish Kacholia:** So in relation to the \$5 to \$6 that you have mentioned. What is the corresponding cost of porcelain and Quartz?
- Sunil Arora:** Averagely, right now porcelain is an expensive product; so, it is in the range to \$10 to \$14 a square foot right now whereas Quartz, basic Quartz is in the range of \$5 per square foot and when you come into the natural look of the marble look of Quartz, they are more expensive than the range of \$9 to \$12.



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- Ashish Kacholia:** \$9 to \$12 dollars for which range you said, the marble?
- Sunil Arora:** The marble range.
- Ashish Kacholia:** It looks like marble, is it?
- Sunil Arora:** Yes, they are trying to imitate marble.
- Ashish Kacholia:** It looks like marble. Okay and including does the installation cost of all these three come out to be similar or is the installation cost different? A big chunk of cost, which is the installation cost, by the installer?
- Sunil Arora:** Yes, so the installation cost for Granite and Quartz is very similar. The installation cost of porcelain as of right now for cover tops is higher.
- Ashish Kacholia:** So, if somebody really wants a porcelain counter he is at a very, very premium end of the market, so he is going to kind of shell out of lot more money?
- Sunil Arora:** Absolutely.
- Ashish Kacholia:** Both in terms of material and installation.
- Sunil Arora:** Both in terms of material and also the labour cost involved. Currently, also the issue with porcelain is that it is very difficult to fabricate; not everyone knows how to work with that product. So, they are having a lot of issues with texture.
- Ashish Kacholia:** Product, and is the American market for the kitchen counter tops growing at an aggregate level?
- Sunil Arora:** On an aggregate, yes it is growing.
- Ashish Kacholia:** What 3% to 5% or more or any sense you can give us on that?
- Sunil Arora:** It is almost growing every year 10% to 15%. It is not only the new market. It is also the renovation. Renovation is becoming very common and popular in US market.
- Ashish Kacholia:** 10% to 15% is the overall growth in the market?
- Sunil Arora:** Yes, every year yes.
- Ashish Kacholia:** That is a huge number?
- Sunil Arora:** Yes.



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- Ashish Kacholia:** Thank you very much and all the very best Sir. Is there a chance for us to get some mines and things like that? Is that on our agenda?
- Sunil Arora:** No, we never went for mining right from the beginning, because mining is normally in India is in the hands of local villagers and of political collections. We would rather stay away from that.
- Ashish Kacholia:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.
- Shailesh Kumar:** Thanks for taking my question. I have a couple of questions. First thing is sitting today, what kind of volume growth are we expecting for New Year and second question, assuming currency change rate stay severities today, what kind of EBITDA margin we are expecting for FY2018?
- Sahil Arora:** With the current condition, I do not think we are expecting much change in the volume in this current financial year, because the reason is this currency rate it will be very difficult for us to look at the growth and the market conditions and obviously it will also effect the margins. Margin also has to be difficult to maintain it.
- Shailesh Kumar:** So, what kind of margin is expected at current exchange level? It will be similar for Quartz?
- Sunil Arora:** It will be similar like what you would see in the last quarter. We will hope to maintain the same way.
- Shailesh Kumar:** Okay, and what are the areas where we can do some kind of cost control or cost rationalization?
- Sahil Arora:** Yes, recently we just made a cost control in power supply. We are buying power from TNEB and we have gone into an agreement with windmill supply of power. Here we are able to save almost like Rs.10 Lakhs to Rs.14 lakhs per month.
- Sunil Arora:** This year an 11 monthly saving. So, for the month of April there will be no saving from switching to wind energy. But, this month onwards we will see the savings come back in.
- Shailesh Kumar:** Sir, you have said that you are also trying to break into newer markets, so do not you expect any kind of volume growth from those markets?
- Sunil Arora:** At the same time like we have been explaining that we do have huge competition in US market with other products like Quartz and ceramics. So, there the percentage having been dropping, but we have been able to cover up only for the newer markets. Last year we did better.



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Shailesh Kumar: So, basically we are relying on our newer growth markets to upset any kind of market side loss in US.

Sunil Arora: That is right. If you see last year US market was about 21% of our business, this year it is about 19.5%. So, already there is a difference in the US market.

Shailesh Kumar: Thanks.

Moderator: Thank you. The next question is from the line of Ashish Kacholia from Lucky Investments. Please go ahead.

Ashish Kacholia: Sir, I just wanted to ask you are you seeing any pressure on the prices of the other stones as well, the Quartz and porcelain?

Sunil Arora: There has been a huge growth in the number of Quartz companies around the world especially in China. So, every year we take part in the Xiamen stone fair, which is in China in the month of March. So, this year in the month of March we saw roughly about 300 new companies processing Quartz. So, in 2015 when we did a survey, we found out that the average cost of Quartz was in the range of 55. Already the cost has come down to 35, so this has been a big difference.

Ashish Kacholia: 55 and 35 in what units?

Sunil Arora: Yes, I am sorry \$35 per square meter. So, from \$5 a square foot to \$3 a square foot.

Ashish Kacholia: Got it.

Sunil Arora: It is almost a 40% reduction.

Ashish Kacholia: Okay, got it. This is in the rate of Chinese Quartz, what about the higher end Quartz, which is made by using the European?

Sunil Arora: For the basic types it is the same pricing, because we are looking here at the basic type. For the marble look, what we see is from around \$12 it has come down to \$9.

Ashish Kacholia: Thank you so much.

Moderator: Thank you. The next question is from the line of Siddhart Bhattacharya from Suyash Advisors. Please go ahead.

Siddhart Bhattacharya: Sir, I just wanted to understand whether the size of the granite slab, does it sort of impact the realization exponentially, so the larger granite slabs will have much better realizations compared?



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Sunil Arora: We only make large size slabs because we have gang saw. I think probably we are trying to compare with some local companies where they make cutter slabs. We do have cutter factory. We have jumbo gang saws. So we only buy large gang saw blocks and that is what we process and we are specialize in making large slabs only.

Siddhart Bhattacharya: Thank you so much.

Moderator: Thank you. Ladies and gentlemen, that is the last question now and I would now like to hand the conference over to Gaurav Sud for dispersing comments.

Gaurav Sud: Thanks everyone for participating on the call. Also to clarify, we are aiming to hold the concall every six months. So, we will be holding the next concall after Q2 FY2018 results and in case any questions are missed out or any further clarity, just write back to us. With that we would close this call. Thank you.

Sunil Arora: Thank you so much. Bye.

Moderator: Thank you ladies and gentlemen on behalf of Kanav Capital Advisors. That concludes today's conference. Thank you for joining us. You may now disconnect your lines.