



Aro granite industries ltd.

Regd. Office : 1001, 10th Floor, DLF Tower A, Jasola, New Delhi - 110 025.
Phone : 91-11- 41686169, Fax : 91-11-26941984, E-mail : arodelhi@arotile.com

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Bombay Stock Exchange Limited
Department of Corporate Services
Floor 25, P.J. Towers
Dalal Street
Mumbai 400001
(SCRIP CODE: 513729)

National Stock Exchange of India Limited
Listing Department
5th Floor, Exchange Plaza
Bandra (E)
Mumbai 400051
(SCRIP CODE: AROGRANITE/EQ)

Dear Sir,

Please find enclosed herewith a copy of the transcript of the conference call with the investors held on 20.11.2018

Thanking You

Yours faithfully
For Aro granite industries ltd.

Company Secretary

Encl.: a/a

CORP. OFF. & WORKS :

KONERIPALLI VILLAGE, SHOOLAGIRI (VIA), HOSUR TALUK - 635 117, KRISHNAGIRI DIST. TAMIL NADU, INDIA.
TEL : 91 - 4344 - 252100 FAX : 91 - 4344 - 252217 E-mail : aro@arotile.com Web : www.arotile.com
CIN : L74899DL1988PLC031510





“ARO Granite Industries Q2 FY19 Earnings Conference Call”

November 20, 2018



MANAGEMENT: **MR. SUNIL KUMAR ARORA – MANAGING DIRECTOR,
ARO GRANITE INDUSTRIES**
**MR. SAHIL ARORA – CORPORATE HEAD,
INTERNATIONAL MARKETING, ARO GRANITE
INDUSTRIES**
MR. S. BALAJI – CFO, ARO GRANITE INDUSTRIES
**MR. SABYASACHI PANIGRAHI – COMPANY
SECRETARY, ARO GRANITE INDUSTRIES**

MODERATOR: **MR. GAURAV SUD – KANAV CAPITAL ADVISORS
PRIVATE LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to ARO Granite Industries Q2 FY19 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 ‘*’ and 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. Thank you and over to you sir.

Gaurav Sud: Thanks, Vikram. Welcome everyone and thanks for joining this Q2 FY19 Earnings Call for ARO Granite Industries. The results and investor update have been mailed to you and it is also available on the stock exchange. In case anyone does not have the copy of the press release, please do write to us. We will be happy to send it over to you.

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

I would like to remind you all that everything said on this call that reflects any outlook for the future, which can be construed as a forward looking statement must be viewed in conjunction with uncertainties and risks that they face. These uncertainties and risks are included but not limited to what has been mentioned in the prospectus filed with SEBI and subsequent annual reports, which you will find on our website. With that said, I now turn over the call to Mr. Sahil Arora. Over to you, Sahil.

Sahil Arora: Thank you, Gaurav. The management of ARO Granite Industries Limited would like to welcome you to the Q2 FY2018-2019 concall. With a difficult year behind us, the company has been focusing on improving the bottomline over the topline with EBITDA margins being maintained at 10%. However, the challenges of the previous year are intensifying. GST continues to be a disaster for export oriented units with large parts of cash flow being blocked by the long pending refunds, both at the centre and state levels. The local market contracting and being price sensitive, the scope of offsetting input credit remains slim.

The stream cash flow coupled with high depreciation of the Indian rupee has prompted many quarry owners to focus on the exports of the already scarce rough blocks. This makes the raw material scarcity even more prevalent for the Indian units. The depressed INR has also affected the cost of the blocks. With most quarries running operations on generator set, the increased diesel cost has forced them to increase the price of the raw material. Further, the increased diesel prices has created higher rate of transportation. With the international market for the natural stone being difficult, the high price of blocks and the unchanged market price put pressures on



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margin this year. By taking more hands-on approach to quarry purchases, the company has tried to improve the bottom-line.

The increased transportation cost has made the need to have a second unit in Jaipur more important. With more sources popping up in the North of India, the timing of the Jaipur plant will help future growth. We are happy to announce that the Jaipur plant is well on the way to beat the target date of commencement. At the current pace, we have expected the plant to be up and running by the second quarter of the next financial year.

During the year, the Quartz industry has faced many challenges in the main market of USA. Import tariff of 35% has been imposed in the last 4 months on Quartz slabs being imported from China. The effect of this tariff on the natural stone industry is yet to be seen as customers in the US being prepared for the tariff from China has increased the inventories over the year. In the last week, however, the tariff has been further increased over 300% on the import value. With the Quartz Industry in India being in the nascent stages, the most US companies will find it difficult to find alternative vendor from India or Europe. With the tariff being imposed on Chinese Quartz and the Rajasthan plant expected to be operational in one year, the company is optimistic for the future perspective.

We open this con-call up for questions now.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Siddharth Agarwal, Individual Investor. Please go ahead.

Siddharth Agarwal: Sir, the question is I noticed is that your opportunity has increased in spite of declined sales and volumes, so is this related to some Forex gains or is there some sort of productivity improvement that we have seen in the last quarter?

Sahil Arora: Thank you for your question for that. So we have actually been focusing on the raw material procurement by focusing on fast moving colours and by reducing the total overall purchase of raw material. We are focusing on just buy fast moving material.

Sunil Kumar Arora: Siddharth, this is Sunil Kumar Arora. I would also like to add what Sahil is saying that we are focusing more on more value-added products which are higher price likely. If you remember earlier, we had informed that we had started new line called cut to size which is a value-added product, so that has picked up and giving us better bottom-line.

Siddharth Agarwal: And sir we also see that the sales in slabs is on a declining trend, while that in tiles are improving, so what is really driving this change of this trend?



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Sunil Kumar Arora: The main reason for decline in granite slab business is that Quartz has taken over the market. Quartz is basically, if you are aware of engineered stone, manmade, which has taken over majority of the market share worldwide. Granite mostly goes for counter tops, our 80% market is counter tops, so that particular market now has been taken up by Quartz. So that is the reason our sales in granite slabs are down. Like Sahil just explained that there has been huge duty by US government on the Chinese Quartz, so we are very hopeful and optimistic for the next financial year that granites would come back.

Siddharth Agarwal: And sir how does that Quartz for the similar area per square feet how does this Quartz compare with our granite in terms of the cost, what is the differential line?

Sahil Arora: The average cost of Quartz is actually higher than that of natural stone; however, being manmade, the pattern can be manipulated to the current trends whereas the natural stone and granite, we are restricted by what is provided by nature. We cannot manipulate the patterns, the designs by anyway. So that's how Quartz has been able to take over a large attempt to the market, the current trend being of minimalistic, they are able to provide more basic colours, more plain colours. As we have been saying over the last few quarters is that white, grey and black material has become more popular, so granite has plenty of black material whereas in the greys and the whites, the options are limited and this is where our Jaipur plant will come into importance because a lot of white quarries are being found in Jaipur, so Jaipur has been a hub for marble for many years. However, with recent development of the Multi Wire and other technologies, granite quarrying and granite slab production in Jaipur is also becoming viable.

Siddharth Agarwal: And sir post this you said that our duty has been recently increased to 300%, so when did this happen, how long back was did this happen?

Sahil Arora: 5 days ago.

Siddharth Agarwal: So it is too soon to know whether this leads to increase in quarries from our distribution there?

Sahil Arora: Yes, absolutely.

Sunil Kumar Arora: So the first duty was already 35% in June, so this is the second duty which has been imposed by the US government in China, so this is confirmed likely. This is absolutely confirmed.

Sahil Arora: 35% was actually account availing duty and still 100% is in antidumping duty.

Siddharth Agarwal: And sir if I understand like for in India when such kind of duties are imposed they are for the period of anywhere between 2 to 4 years and then there is review after the certain period, so how does this work in US, so this 300% which has been levied, so what is the longevity of this, what is the system in US. This is completely get reviewed every year or couple of years, how does it work?



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- Sahil Arora:** It gets reviewed couple of years and they are pretty much the same range, it is about 4 to 5 years review.
- Sunil Kumar Arora:** And that is the information what we got from our customers there from USA, we see at least will be there for 4 to 5 years.
- Siddharth Agarwal:** 4 to 5 years and this is only for importers from China but the total supply for Quartz from India would still continue to do that without any duty?
- Sahil Arora:** Yes, but India there is hardly any production for Quartz and from China as per the information there were 2500 containers every month going to USA of Quartz, so that has come to a standstill overnight. So from India or any other country will not be able to fill up this gap actually, this is a very huge gap.
- Moderator:** Thank you. We have next question from the line of Abhishek Mehra from the Investment Labs. Please go ahead.
- Abhishek Mehra:** Sir, can you please share total CAPEX from Jaipur facility and how much of it had been spend till now?
- S. Balaji:** Total CAPEX from Jaipur is about 56 crores of which bank's contribution is about 33.5 crores and the rest comes from our side.
- Abhishek Mehra:** And how much of it has been spent till now?
- S. Balaji:** With regard to our share, we have spent about 17.3 crores till September and the banks have opened the LCs for purchase of missionary for their share and that comes to about 33 to 34 crores.
- Sunil Kumar Arora:** And the work in Jaipur is going in full swing, building work has already started, electrical work has already started and we are very hopeful that we can finish much before our target date.
- Abhishek Mehra:** Sir, my second question to you, are there any plans to enter the engineered stone business since it has been gaining market share globally?
- Sahil Arora:** Actually, we have been thinking about this for very long time, so we are still in the process of...that is what I can explain at this stage, yes we have been thinking about this from a long time.
- Moderator:** Thank you sir. We have the next question from the line of Shankar Dutt, Individual Investor. Please go ahead.



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- Shankar Dutt:** Sir, my first question is that you said your cut to size segment is doing well, can you share the revenue for the cut to size in H1?
- Sunil Kumar Arora:** It is very difficult to particularly value a particular product. In our case, it is a combined thing actually, so cut to size we get value addition. At the same time, we have other products which goes along with directly.
- Shankar Dutt:** If you can share the volume of the cut to size?
- Sahil Arora:** Our CFO will give you the exact percentage.
- S. Balaji:** I will give the value first. The value is for cut to size is about 9.23 crores and the slabs is 32.72 crores for this quarter. The volume is about in terms of square meter sold is 36,000 square meters for cut to size and 82,000 square meters for slabs.
- Shankar Dutt:** And these are for Q2?
- S. Balaji:** Q2 2018.
- Shankar Dutt:** If you can share for H1, Q1 and Q2 combined?
- Sunil Kumar Arora:** Basically, these figures are only for this particular thing, but along with that we sell slabs, we sell tiles which are also giving us better pricing actually, so when the package when it goes, it gives a better price.
- Shankar Dutt:** And sir, what are the margins for the cut to size?
- S. Balaji:** The cut to size volumes for Q2 2018-2019 was 74,000 square meters for the first half and the sales volume for first half for slabs is about 1.64 lakh square meters.
- Shankar Dutt:** And sir, my second question is, as you know the procurement for the block has been major headwind for the company and sir what is the situation now?
- Sahil Arora:** It is still the same. We are based in Tamil Nadu, the main quarries are in Madurai area which had closed down 5 years ago, still the situation remains the same and is getting back to worst in the sense that lot more further quarries were closed down because of environmental issues. That is the reason our slab business is down here.
- Shankar Dutt:** And sir, you are importing around 40% of our raw material requirement from other countries, so what is the percentage now?
- Sunil Kumar Arora:** It is in the range of about 30% roughly.



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- Shankar Dutt:** And sir, how GST will go on raw material granite block?
- S. Balaji:** GST comes in two folds, one is the interstate purchases and the intrastate purchases. With regard to purchases within Tamil Nadu, we get charged about 12% and the same 12% applies for also interstate purchases. So rough blocks are charged 12% under the GST tariff.
- Moderator:** Thank you sir. We have next question from the line of Siddharth Agarwal, Individual Investor. Please go ahead.
- Siddharth Agarwal:** Sahil, this is a question for you. In the international markets, in the last one year or so, have we added any new markets for us or in the new countries where we have started exporting the last year?
- Sahil Arora:** The last one year, we have been focusing on the same market as before. In fact, there has been no addition of new countries in the last one year, but we are already exporting to about 60 countries in a given calendar year, so we have just been focusing on the same customers now.
- Siddharth Agarwal:** So basically, US still continues to be an important market for us, but what about some of the other markets, are there any regions or geographies where we are seeing better traction or better demand for our products or there is more or less similar period?
- Sahil Arora:** In fact, US only contributes to about 20% of our total sales, but if you take Europe as a whole, Europe is more than 50% of our business and is where we consider our major market to be now. US is a lot more price sensitive, lot more quality conscious, whereas Europe is more of a relationship based market, so that is where we prefer to focus. Besides that, Japan has traditionally been one of our strongest markets and continues to be, so Australia and New Zealand is very strong market for us. The one area where we are growing is in the Asian segment. Of course, Japan has been a strong market, but we are developing more markets in Asia which are growing up.
- Siddharth Agarwal:** And sir if I remember last year, we had some working capital issues due to the GST and the challenges in the banking sector, so has that somewhat reached now, what is the situation now, working capital?
- Sunil Kumar Arora:** We are saying that we had some limits from the bank 3 months back.
- S. Balaji:** Currently, our limits got increased from about 90 crores to 120 crores during the current quarter and we right now don't face any issues in terms of working capital financing, but we still have a huge portion of our refund on GST due from the government, so 10.7 crores for the period ended September 2018. So at the end of Q2, we still have about 10.7 crores worth of GST refund due from the government, so that is still blocked with the government, but in terms of the movement, our debtors have come down dramatically from some 72 crores to 61 crores in the



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last 6 months. At the beginning of the year, we had about 72 crores and currently we have about 61 crores and that has really pushed in terms of easing out working capital issues.

Sunil Kumar Arora: Even the raw material stock has gone up now which makes us easy for us to handle the orders immediately.

Siddharth Agarwal: And with the new Jaipur plant coming soon out, so probably you would need more limits to fully utilize the plant or maybe we need to increase the raw material, etc., so are we in any further discussions or do you think this particular current limits would suffice to fully utilize our new plant as well?

Sunil Kumar Arora: This current limit definitely will survive for the first year of operation for Jaipur plant absolutely, we will be comfortable with this current limits for sure.

Sahil Arora: One of the benefits of the Jaipur plant is actually that it is located in an SEZ, so GST will have no scope of playing in that unit which will also help us a lot. Just to explain the GST mechanism, how it works right now is when we purchase raw material from India, we pay 12% at the time of purchase and we are supposed to get refund at the time of sale, however, those refunds again is delayed. Being in an SEZ unit, there is a zero rated supplier of GST which will help us with the cash flow over there as well.

Siddharth Agarwal: So for an SEZ plant, when you buy raw material, even at that stage you do not have to pay GST, how does that work?

Sahil Arora: In an SEZ, there is absolutely no GST applicable.

S. Balaji: This is Balaji here. I will explain it to you. How it works in terms of an EOU and SEZ is that in terms of an EOU, you need to pay GST upfront on your purchases and then get a refund from the government post the transaction of sale. Here in terms of an SEZ, there is an exemption even at the input stage, so when you show your SEZ exemption certificate to the vendor, he is not supposed to charge you a GST because these are all zero rated supplies. So at the input stage itself, we don't enter into a payment concept for GST and therefore our working capital for GST amount is saved on the PAT.

Moderator: Thank you sir. We have next question from the line of Shankar Dutt, Individual Investor. Please go ahead.

Shankar Dutt: And sir, you talked about value added products and last year you bought a cut-to-size wire for Quartzite purchasing, so how is the production of Quartzite scaling up?

Sunil Kumar Arora: Yes, that is what we explained that apart from cut to size, this multi wire, single wire machine what we installed, we are able to cut high end material, which are mostly imported from Brazil.



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They are basically natural Quartzite and they are high value, high price and we are able to get better margin in this and because of the Multi wire, we are able to make better margins.

Shankar Dutt: Sir, what is the production of this new product? How is the production scaling up sir for this product?

Sunil Kumar Arora: In square meters, I can bifurcate, but basically we are able to cut two blocks per day in this machine and average in a month, maximum 40 to 45 blocks we are able to cut.

Shankar Dutt: And sir, what is the margin difference between this product and our normal product, slab and tiles?

Sunil Kumar Arora: It is almost like 3 to 4 times depending on the material, more margin in this as compared to the normal Indian regular colour granite, you can say.

Sahil Arora: Being a high value product, the competition for it is much less and we were able to charge a better rate.

Shankar Dutt: So does this product have competition from China or any impact of engineered stone?

Sahil Arora: Yes, definitely there is competition from Brazil where the stone originates from, Italy which is the traditional source, however, being of such high value it is very difficult for most customers to buy a very large volume of this material. So where we are focusing on is to sell half a container of Quartzite and fill it up with half a container of Indian material, so that reduces the total value of a container. Just to give you an idea, a full container load of Quartzite would be in the range of \$60 to \$70,000 per container whereas a typical container of just Indian material is about \$15,000, so when you make a combination of these containers, we are looking at about \$30 to \$40,000 container which is much more manageable of an investment for most wholesalers around the world.

Shankar Dutt: And sir, you said that US has imposed antidumping duty on Chinese product, so will that increase demand for granites from India?

Sunil Kumar Arora: Yes, we are very hopeful for that because it just happened four days ago and right now around the world international markets have slowed down for November, December, January, so when the market picks up after January-Feb, we are very hopeful that granites will come back.

Shankar Dutt: Do you see more competition in terms of processor, processor of granite, like?

Sunil Kumar Arora: There have been many factories which have come up in especially the South of India in last 10 years, there has been over capacity and that is also one of the reasons for us for lower margins for the Indian material.



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- Shankar Dutt:** What kind of revenue we can generate from the Rajasthan plant?
- Sunil Kumar Arora:** Roughly, we are looking at around between 40 to 45 crores, we will be able to generate revenue to start with.
- Shankar Dutt:** And this plant shall we use for slabs, tiles and cut to size, all the product we currently process?
- Sunil Kumar Arora:** That process is basically for random slabs, yes but we can do cut to size, but not for tiles. Tile is only in Hosur plant.
- Shankar Dutt:** Sir, our sales in India has been very low like 7 to 8% during the past year, so are we planning to increase the sales especially in value added product?
- Sahil Arora:** Definitely, our focus has been on increasing the domestic sales which will also help us in offsetting the GST into credit; however, being in EOU, we have to charge a total taxation of almost 31%. Initially, we have to charge 11% basic customs duty on top of which basic value plus the basic custom duty, we have just 18% GST. The total value comes to about 31%. That itself is a very high amount. Besides that to compete in the Indian market, our plant has designed more effort in the export quality, whereas you have localized plants which are producing smallest slabs. Our slabs are basically about 6 foot tall, we are producing about 3 foot, 4 foot slabs. The raw material cost of that is much less, so we are not able to compete against those kind of plants.
- Shankar Dutt:** Sir, do you have any customer for cut to size in India?
- Sunil Kumar Arora:** Same only because it is difficult for us to compete with the local market quality. Our quality is basically designed for international market, advanced countries like Japan, Germany, USA, we are there looking for exact position and the high quality production. So for us, we would like to sell the same quality in Indian market, but we cannot match their prices.
- Shankar Dutt:** Sir, what will be the difference in price like say an Indian manufacturer making in India?
- Sunil Kumar Arora:** Depending on the manufacturer, difference could be anything between like Sahil was just explaining if they are smallest slabs then the difference could be even 50%, it could be 50% cheaper than us where as we use large size blocks, gangster size blocks, that is what we call which are much higher prices as compared to the smaller blocks. The advantage in our material is it is machine polished, the thickness controlled, there is a position. What I am trying to say what is required in the international market, somehow in the Indian market, it is lucky. Hopefully, again with the improvement in future it might come up.
- Moderator:** Thank you sir. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.



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Sunil Kumar Arora: It was pleasure having you all with us. Thanks a lot ,and I thank you all on behalf of ARO Granite. We will get in touch with you again after 6 months once we complete our FY19 and hopefully then we will be able to give you more information about Jaipur plant. Thank you so much. Thanks for being with us.

Sahil Arora: Thank you.

S. Balaji: Thank you.

Moderator: Thank you very much sir. Thank you. Ladies and gentlemen, on behalf of Kanav Capital Advisors that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.