



**“ARO Granite Industries Limited Q2FY
2018ResultsConference Call”**

November08, 2017



**MANAGEMENT: MR. SUNIL ARORA -- MANAGING DIRECTOR, ARO
GRANITE INDUSTRIES LIMITED
MR. SAHIL ARORA – WHOLE TIME DIRECTOR, ARO
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MR. S. PANIGRAHI -- COMPANY SECRETARY, ARO
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**MODERATOR: MR. GAURAV SUD --KANAV CAPITAL ADVISORS
PRIVATE LIMITED**



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the ARO Granite Industries Q2FY 2018 Results 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. If 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 conference over to Mr. Gaurav Sud. Thank you and over to you, sir!

Gaurav Sud: Thanks, Aman. On behalf of Kanav Capital Advisors, this is Gaurav Sud. We welcome everyone for joining this Q2 FY 2018 Earnings Call for ARO Granite Industries Limited. The results have been mailed to you along with the Press Release and it is also will be available on the Stock Exchange Website.

To take us through the results of this quarter and answer your questions; we have today with us, Mr. Sunil Arora -- Managing Director of the company; Mr. Sahil Arora -- Director (International Marketing); Mr. H. Panigrahi -- who is the Company Secretary.

We will start this call with providing a brief overview of the company followed by Q&A session.

I would like to remind you 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 the uncertainties and risks that they face. These certainties and risks are included but not limited to what we have mentioned in our prospectus filed with SEBI and subsequent Annual Report which you can find on our website.

With that said, I will now hand over the call to Mr. Sahil Arora. Over to you, Sahil!

Sahil Arora: Thank You, Gaurav. I welcome you all to ARO Granite’s Q2FY 2018 Investor Concall.

ARO Granite is India’s largest processor and exporter of Granite. The company’s its financial results for the quarter ended September 2017 on 28th October.

The revenue for Q2 was Rs. 50.56 crores and the company has reported a net profit of Rs. 0.37 crores.

The financial highlights are:

The sales have decreased by 8.49% from Rs. 55.25 crores in Q1 to Rs. 50.56 crores in Q2. EBITDA decreased by 7.53% from Rs. 3.45 crores in Q1 to Rs. 3.19 crores in Q2.



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The profit after tax increased by 6.44% from Rs. 30.83 lakhs in Q1 to Rs. 37.27 lakhs in Q2.

It has been a challenging environment for Natural Stone processors out of India. Globally the demand is moving towards Engineered Stones like Quartz and Porcelain Slabs and this is eating into the demand for natural stone.

The designed demand has also move to Black, Grey and White shades and sourcing of these stones is not easy as they are in limited quantity.

The number of colors, shades and tones we process in the previous year has drastically come down. From processing over 40 Indian Granite shades on a monthly basis, this year we have only process about 20 colors to 25 colors.

The biggest event for the quarter has been the rollout of GST in India which has particularly affected EOUs extremely hard. Under the GST era, we have to pay GST upfront of 12% on rough blocks; 18% on most consumables; 28% on spare parts and machinery; and claim excess tax paid back on a future date.

In the pre-GST era EOUs would be treated on par with SEZs where the maximum indirect tax was 2%. All other tax was exempt. As exports from EOUs I exempt of GST as per the current regime. We have to pay tax upfront and then collect the unutilized input credit on a future date.

As of 30th September 2017, we have a tax refund pending of Rs. 4.61 crores which has affected our regular cash flows. Our domestic sales which comprises of only 5% of our total sales is not enough to adjust the entire amount of GST. We have only adjusted about 18% or Rs. 0.86 crores by way of re-claiming GST.

For domestic sales the overall taxation adds up to 41.18% which is impacting the buying behavior of local customers. While we are trying to increase our domestic sales slow real estate market and huge tax incident is impacting the overall demand for process Granite in the domestic market.

Further, GST has put a huge dampener on purchase of raw blocks due to the working capital requirements. Block purchase is a cash and carry market where we need to make payment for blocks within 48 hours of marking or the quarry owners for the same blocks to other factories. This has resulted in a slowdown of purchase in raw blocks. This combined with the closure of 75 quarries over the last year and Southern India has drastically affected the supply of qualities of raw blocks.

During the quarter, the company has installed 172 multi-wire saw machine for cutting of Granite and Quartzite. The production capacity of Granite slabs has increased by 1,50,000



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square meters to 7,35,000 per annum. This addition of multi-wire will enable the company to process Quartzites which the company has not been able to do so before.

Quartzite, a highly sought-after material in the international market. The price of this material is three to four times the price of Indian materials, Quartzite are dense and hence have hard materials. This hardness makes it difficult to cut in conventional Gang Saws. The multi-wire which uses diamond wire for cutting is a better suited for cutting Quartzite block.

The company is working on various strategies to face the multiple headwinds that have emerged. The high demand for Engineered Stones resulting in falling market share of Natural Stone, reduced realization, shortage of raw blocks, GST implementation, high transport cost and unfavorable exchange rates are all impacting the working of the company.

Currently the processing facility in Hosur is sourcing rough blocks from Tamil Nadu, Andhra, Karnataka, Telangana and Rajasthan. While new highways have stricter norms, there has been a substantial increase in transport cost over the last five years. The transportation costs are huge when the distances are over 300 kilometers. These high transportation cost are impacting the competitiveness of the company.

One of the options we are exploring is to change the business model by setting up smaller units closer to the raw material sources. Given that over 50% of the weight of the block is lost during processing, setting up a smaller unit with low overheads would make the production, the product more competitive in the market.

Now, I open the call for any questions.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Pranoy Kurian from Ambit Investments. Please go ahead.

Pranoy Kurian: Actually I wanted to ask about what you were talking about the structural shift from Granite to say Engineered Stones. So do you think that is a long-term trend or is that as you mentioned in your Annual Report that it is a design based strength.

Sahil Arora: This is completely a fashion based trend. Right now, the architectural trend is of having straight lines. So, the Quartz product which has more homogeneous than Granite is more suited for those kind of products, so it is definitely a fashion thing, we cannot say how long this fashion will last but definitely, Quartz is more in fashion product right now.

Pranoy Kurian: See, you mentioned in your Annual Report you explored say entering the Engineered Stone segment but it was not buyable on a CAPEX base, so Quartzite is there another alternative that you are exploring right now to enter this segment?



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- Sahil Arora:** Yes. So Quartzite are a natural product, is has processed very much in the same way as Granite blocks. So, we are taking that as an alternative because this we will be targeting the high end of the market where there is still a lot of demand for these products the benefit of this product also that there are not many factories around the world that are capable of handling these materials until delivering them with good quality.
- Pranoy Kurian:** Okay, this is industrial uses?
- Sahil Arora:** I am sorry.
- Pranoy Kurian:** Quartzite will be used for industrial purposes?
- Sahil Arora:** It is mostly for residential purposes, also specifically used more in focused areas such as Hotel, Lobby's and counters and stuff like that.
- Pranoy Kurian:** No, I am not talking about Quartz. You are talking about Quartzite or Quartz?
- Sahil Arora:** Quartz is basically Engineered Stones, Quartzite is a natural stone. So they are both used in the same way.
- Pranoy Kurian:** Okay.
- Sahil Arora:** They both are mostly used
- Pranoy Kurian:** No, because you said it is one of the hardest substances that is why I was thinking of industrial uses.
- Sahil Arora:** No, it is a harder stone to process. They are not factories that can handle processing this stone.
- Pranoy Kurian:** Okay. So do you still see think that entering the Engineered Stonessegment would be unviable?
- Sunil Arora:** My name is Sunil Arora -- Managing Director. Actually, Engineered Stones is a totally different field all together, it is a Quartz material and of course, Porcelain Slabs in other Engineered Stone. So we did study this project three years - four years back and then we dropped it reason being that the China is producing in very large quantities. And we feel that it will not be viable for process in India. So, for us, we have totally dropped this idea of going into Quartz or Engineered Stone. What Sahil is talking about is Quartzite that is natural material. For that, we already installed a machine, we are processing in our company now from last one month. It is a new machine what we installed. So, this has the same application as Granite but it is a different product that is all.



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Pranoy Kurian: Okay. And I just want to understand again from your Annual Report, it is saying that owing quarries versus say and processing versus say only being a processor. It is not as advantageous. So I just want you to elaborate on that.

Sunil Arora: Yes, sure. Actually, the quarrying is mostly in the hands of local village people or with political connections. Once you have a processing unit, it is very difficult for you to go into quarrying business. There are many examples, people have lost huge amount of money when they have decided quarrying from the processing. The other reason main reason is that in a quarry it is not that 100% material is good. It is almost like 80% to 90% material which is second choice, third choice or even rejected. Good material is maybe less than 10% also in many quarries, it could be even less than 10%. So, whereas we being, a processing company and export company, exporting to the advanced countries all over the world, we are looking for completely first choice material, hence having own quarry would be a more negative point than any favorable point.

Pranoy Kurian: Okay. You are saying that it will be difficult to own enough quarries to supply because it is also a question of colors, right?

Sunil Arora: Also the question of colors and the quality and plus like I said, it is in the hands of local village. People it is very difficult for an organized sector to run a quarry.

Pranoy Kurian: Okay. And the people do have it, they may have it, they may also have challenges in renewing it, right?

Sunil Arora: Yes, they have their own challenges, they have their own issues. So we buy block them. We are there customers.

Sahil Arora: And specifically we try to buy only the first choice blocks from them which is only 10% of the total production of the quarry.

Sunil Arora: So like, we not only buy within India, we also import almost like 40% of our raw material other block comes from outside India, international countries like Brazil, Norway, Finland

Pranoy Kurian: Yes. Just back to Brazil you know the competitive pressures in Granite. So are you still seeing that and one, why is competitive pressure so much different in Europe versus United States, I think you mentioned that in Europe, we are not seeing the pressure from Brazilian players?

Sunil Arora: Yes. So first thing you have to understand that what colors we have India, if not in Brazil or what Brazil colors have, we do not have India or Norway, Finland, anywhere or China, so every country has its own unique colors, Granite is very unique material, it is not like other natural material. So, U. S. market is looking more for exotic material which is available in



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Brazil. So, they have better market share as compared to us. But on the other hand, we have better share in Europe, Australia, Japan and other markets.

Pranoy Kurian: Okay. No. But you were saying the colors are getting more towards White and Black and Grey and all that.

Sahil Arora: It is completely taste preference thing. So, India we have more what we say regular colors or more homogenous colors where the pattern is consistent from block to block. Whereas in Brazil what happens is you have extremely-extremely exotic materials with wild movements which the Europeans do not prefer. The Europeans they prefer to have a more subtle movement like what we have in India.

Sunil Arora: But your point is correct. What you are saying is that today market they are looking for more of White, Grey and Black that is correct actually. So we also have some White, Grey, and Black in India but what White, Grey and Black we have in India? Brazil has a different White, Grey and Black.

Pranoy Kurian: Okay. No, because thought that the Brazilian issue was more to do with their currency and things that.

Sunil Arora: Yes, that is also true actually. They also have their own issues.

Pranoy Kurian: Okay. So then what is this plan I mean is there any way the Indian players or us we can get back market share there or in the U. S.?

Sunil Arora: Right now, in the opening remarks Sahil explained that the majority of the market has been taken over by Quartz or the Engineered Stones what we call it. To give you figure something like 50% or more than 50% round the world is right now Engineered Stone. In last two years this volume has really increased, we use to have 100% three years - four years back at least. So today we have lost the 50% market. In this 50% natural stone market there is marble, there is Granite, there are other natural materials also and plus we have competition from Brazil other countries, Italy, China and of course within India. So Brazil is not only our only issue that is only for one particular market. In general, all the Granite industry around the world are having a tough time because of the Engineered Stone. And like Sahil explained, it would be one year, maybe it is temporary trend, it could be for one year or may be more.

Moderator: Thank you. We have the next question from the line of Sayam Pokharna, as an Individual Investor. Please go ahead.

Sayam Pokharna: Sir, you mentioned about the demand slowing down. So, what exactly are you doing to handle the situation slowing down?



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Sunil Arora: First of all, Sahil just explained, also in the opening remark. What we are thinking is, we are just thinking as of now because of the high transport cost having a single unit. The cost is too high, we are unable to compete in the international market. So, what we are thinking is to have smaller units wherever the raw material is, say for example, Rajasthan, maybe Andhra, maybe Telangana, so rather than having one large unit, have smaller units in different places.

Sayam Pokharna: Okay, sir. And sir, what about your average realizations for Granite? And how much have it gone down?

Sunil Arora: It is a very wide range, it starts from \$4 per square foot as high even \$11 per square foot. Some were even higher than that. In general, yes, prices have dropped in some material. In some material it is still consistent. It is not only the question of pricing, more problem is in these the market trend or the market share, our market share has come down in last few years because of the Quartz Engineered Stone.

Sayam Pokharna: Okay. Sir, my last question was, what is happening to the other processing unit. Has anyone close down because of the situation in the industry?

Sunil Arora: Yes, there are some units which have close down also. And it is the same situation with all the Granite processing unit, not only in India also other countries like Brazil, Italy and other countries also.

Moderator: Thank you. We have the next question from the line of Rishabh Vasa from Almondz Global. Please go ahead.

Rishabh Vasa: So my first question is regarding the further orders in H2 FY 2018, for the Cut-to-Size segments. We have already done some 40 containers shipment and are we seeing any further orders in that segment? And also, how are the margins placed for this segment as against your Granite Slabs and Tiles?

Sahil Arora: Yes, that is a new segment what we started last year actually for that we added the equipment. It is a value-added product and this area we are able to grow and able to get pick good orders around the world. And again, like we just started a year ago, we need a little bit more time to stabilize and have large volume orders in this and we are very hopeful that this the area we will be growing in next few years on a regular basis.

Rishabh Vasa: Yes, sir. And my second question is regarding the power cost, as a percentage of total operating expenses like we have been saying that we are looking for reduction in that. So how is the reduction been seen like from March 2017 to September 2017? And how much down we are expecting it by March 2018?



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Sunil Arora: So what we have done is last year we were buying power from the Government TNEB. Now what we have done is, we have shifted to third party purchase of power through wind mills where the price of per unit is roughly about 75 paise less than what we buy from the Government. So that is where we have reduced our power. Further, since the power situation in Tamil Nadu has improved. The use of diesel generator has gone down. So, I do not think we will see much of drop in power between March 2017 and March of 2018. What we have been doing this year the same kind of power draw will there, the same kind of power cost will be there.

Rishabh Vasa: Yes, sir. And if I can squeeze just one more question. So basically, you have been saying that we are thinking about setting up smaller units closer to the plants or the raw material areas. So basically, how far are we from setting up those plants? Any CAPEX required, could you give us some color on that? And how are you going to fund if at all?

Sunil Arora: See, it is just an idea that we are working on it. Once we really firm up the plans, we will definitely come back to you very soon, very-very shortly. Yes, we are seriously working on it. Like we explained, any more than 300 to 500 kilometers in today's market it is not viable to bring the blocks to the factory, reason being that after this new highway, Government is very strict in transportation of blocks for the over tonnage. And the cost of transporting blocks has become very high since it is bulky material. And also, like Sahil explained 50% of the material is wasted in the factory at the time of sowing and processing. So, the transportation cost really is a big component in our costing. So, if we are able to put up units near the raw material there is going to be big amount of saving which can definitely help us to regain the market..

Moderator: Thank you. We have the next question from the line of Prateek Shah from Motilal Oswal Financial Services. Please go ahead.

Prateek Shah: Sir, what I was asking is our trade receivable, sir are on a very higher side, sir. From the turnover if you see total turnover I think around 25% to 30% I think is going into trade receivable. So any reason, there is a long gestation period for the recovery, sir?

Sunil Arora: Yes, because in our business by the time container goes to the port and from port reaches the customer, it is between 8 weeks to 10 weeks you can say roughly to 2.5 months is that itself. So after that only the customer needs time to pay to us. It is normal trend, not only from India, it is everywhere actually. In this business, this is a part of this business. But in our case, we take working capital facilities in foreign currency only. So our interest cost burden is not really bothers us so much.

Prateek Shah: Okay. Sir, and do we have any hedging of currencies which we do sir for the export amount?



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Sunil Arora: Yes, sure. It is auto hedging, what we do is we take only foreign currency packing credit. And once, we receive payment from our buyers, it is offset against our loans and then we take a fresh packing credit on the current....

Prateek Shah: Okay. And sir, do you expect sir, any policy changes to be done? Sir, because as you rightly said that after the GST in place, there is a lot of money which is being block into working capital requirement. So do you expect that any changes which they can take this will be hurting the export industry a lot no, sir because of this GST?

Sahil Arora: The data is already available on these on how much the export has been affected out of India. Butfor us, for EOUs and for exporters what they have done is that they have already given the exemption of IGST. So IGST is the GST charged on any product that is imported. So that does help us quite a bit. Though 50% of our cost are raw materials which comes from India that attracts CGST and SGST. So still have to pay 12% on those. On the balance 50% of our cost there will be no GST because most of our consumables are imported. That benefit will come to us. The thing that we are really looking forward to is the refund mechanism to start happening. Since demon, the Government has not been able to calculate or even the portal has not been able to open it to get the refund. So, once we do get the refund and on the regular basis they have the refund system or this eWallet system that they are saying they will start from next financial year, it should help exporters a lot.

Prateek Shah: Okay. And sir, along with that, sir as you guys said that you will be opening a smaller units outside also at different places. So can we expect any expansion to be done in next couple of years or so in some small units being started elsewhere?

Sunil Arora: I will just explain you the basic idea behind this is that this current unit what we have in Hosur it is a large unit where we have a production capacity of almost more than 1 million square meters. It was a good idea 20 years back. We used to think that sitting at one place it is easy to control. But today, the business model has to change. Today the business model is that you have to be really cost effective. So we have to put unit may be one-tenth of this size in different-different areas wherever we get the blocks from. So this is the model what we are working on it now. As soon as things are materialized, we will definitely get back to you with more details. And like I said earlier also we are very seriously working on it. And we are sure that we will come back to you very soon.

Moderator: Thank you. We have the follow-up question from the line of Pranoy Kurianfrom Ambit Investments. Please go ahead.

Pranoy Kurian: Sir, I wanted to ask about the domestic business, how you see it over say the next 10 years? how do you think, the use of Granite will evolve and like in residential, commercial?



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Sahil Arora: Definitely in India, Granite is not considered a premium product. Italian marble or imported marble is what is preferred by the residential owners. We are already starting to see that with more and more exotic materials, more and more Quartzite that we are bringing in that there is some movement towards buying these products. However, for Indian stones being an EOU, having the systems that we have, I do not think we will be able to compete. Firstly, what we do is we buy slabs and we use large size blocks, our blocks are usually in the size of 2.8x1.8 meters. And when we do cut, we cut 2 centimeter and 3 centimeter which are exactly 20 millimeter and 30 millimeter. However, from the domestic market they do what they call Cut-to-Size slabs, which are maximum 3 feet or 120 centimeter or 140 centimeter maximum. The cost of these blocks itself is about 50% of the cost of the blocks that we buy. Just because of the size. And when they cut 2 centimeter is usually 16 millimeters to 18 millimeters, so there is a lot of cost savings for them on that aspect also. So growth in the Indian market or the domestic market for imported materials there is a lot of scope. However, for the Indian materials, I do not think there is much scope for us to grow.

Pranoy Kurian: No, but you are saying the industry Granite as a whole, the usage of Granite will not increase much here domestically?

Sahil Arora: Yes, I think, it will increase because Granite is a product which requires less maintenance as compared to other product. So it is also a greener product as compared to any other surface material, as part of our World Natural Stone Association we have a study where we calculated the total cost of power that goes into different products and out of those we have seen that Granite or natural stone uses the least amount of power and is the most green product of all surface material. With higher cost coming into India, having less maintenance cost on your house is going to become more and more important. Vendors coming into India, there is a lot of movement towards the green or Swachh Bharat in this case. So there is definitely going to be an increase in Granite in India.

Pranoy Kurian: Okay. And I just want to understand, when you mentioned that the Granite prices were a little soft. So I just want to understand how this pricing work? I mean, is it like say connected to a global commodity price or is each region based on demands and supply?

Sahil Arora: Based on multiple factors, so one of causes demand and supply which is usually based on the pattern and the color or the tonality of the material. And the other important factor that is there is recovery in the quarry. So you have certain quarries where the recovery rate is very high up to 30% to 40% of the material can be made into blockable forms but you have certain products like a lot of the Quartzite that we buy which are three to four times the price of Indian material there the recovery in the quarry is only about 2% to 3%. So the total cost of removing one block is much higher and that influences the cost of the material.

Pranoy Kurian: And people are still willing to pay 3x to 4x because that color is very rare or something like that?



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- Sahil Arora:** Of course, the color has to be a lot more pleasant or there has to be some esthetical features to that allows us to sell at those prices.
- Pranoy Kurian:** Yes. So only if it is very much in demand, people pay 3x to 4x that you are saying.
- Sahil Arora:** Yes. This is one of the reasons why a lot of quarries fail because they do not get the recovery in the quarry and at the same time the pattern or the color is not in the liking of the market and therefore no one is willing to pay such a high price and the quarry eventually fails.
- Pranoy Kurian:** And you probably do not know when you are setting up a quarry what color you are going to get, right?
- Sahil Arora:** In India specifically one in ten quarries is successful.
- Pranoy Kurian:** Okay. So I am trying to understand how prices would affect someone like you because you are buying Granite from the open market and depending on all these factors then you are selling in the export market. So do those two prices move in tandem like your cost price and your selling price?
- Sahil Arora:** So we are buying mostly from unorganized sector. They have price increases to put it very bluntly, one day they wake up in the morning and they decide they want to increase the price and they go ahead and do it. Whereas in the export market we have to be a lot more organized, we have to work on price list, we have to allow our customers time to adjust new prices if there is an increase. So, definitely they do not go hand in hand whenever there is block increase, we do not increase our prices. This is also because of the competition.
- Pranoy Kurian:** Okay. And plus basically all these factors like you were talking about pattern and color, so say if you are dealing in Black, a certain color that would depend on the demand, supply for that particular color?
- Sahil Arora:** Yes.
- Pranoy Kurian:** But then that would also be linked to the demand in domestic what you pay domestically, right, somewhat?
- Sahil Arora:** See, definitely it is linked. For us to increase prices, every time a quarry owner increased his price is not possible just because our customers they have fixed their price list at the beginning of the year and they have revision may be once in three months, or once in six months or once in a year.



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Pranoy Kurian: Okay. No, what I am trying to get is that suppose the Brazilian Granite prices go up over six months by 50% does that also mean that your raw material cost will go you by say between 30% to 60% also, is it linked...

Sahil Arora: Like Dadwas mentioning, the products that come from Brazil, they are unique to Brazil. So the same pattern, same shade you cannot find in India. So there is no link between the price in Brazil and in India. Definitely, it does affect in way that if Brazilian prices do go up, Indian products become a little bit more attractive on the price front, not so on the taste front but on the price front. So there might be slight increase in sales as long as....

Pranoy Kurian: Okay. And right now in terms of your applications of your Granite may it would be largely kitchen tops, right?

Sahil Arora: Yes, majority of our slabs are used for kitchen tops, tiles are mostly for flooring.

Pranoy Kurian: Okay. So for vast majority the Granite would be kitchen tops?

Sahil Arora: Kitchen tops, yes.

Pranoy Kurian: And is there any other application of Granite that may be gaining scale.

Sahil Arora: The other application is wall cladding, exterior wall cladding, interior wall cladding, steps and risers. So with this Cut-to-Size that is where we are targeting some of the projects that we have done this year is for our own customer in Nagoya, in Japan. We supply to them multiple containers of Cut-to-Size pieces for their wall cladding of their building. And regularly for our European customers now we are supplying steps and risers which are ready to install. So that once it rise, they can install it right away.

Pranoy Kurian: Okay. Is this a new market or are you gaining share from some other player?

Sahil Arora: This is a new market because we just install machineries last year that enables us to deliver these products. So earlier a lot of the customers they were buying slabs from us and then doing the cutting themselves. So we now what we do is we process the slabs, we do the value addition and get the profit margin on that, get the extra value on that and then export.

Pranoy Kurian: So you have to cut it yourself but they probably communicate their requirements.

Sahil Arora: They give the specification. Our machines are also designed. So that if we get AutoCAD drawings from our customers then all we have to do is we have to feed an AutoCAD drawing into the machine, we can push a button and the machine will do all the processing by itself.



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Pranoy Kurian: In a way that market would probably be very large, right I mean this because example how much you charge for Cut-to-Size I mean roughly in percentage terms, how much is the price increase if you perform the cutting yourself?

Sahil Arora: The minimum would be about 25% but it could be as much as 3x the price of the material. It would depend completely on the wastage type of job is there how many cuts are required? How many edges are to be polished? So there are multiple factors in this. Yes, of course, definitely, it is more profitable side but like Dad was mentioning by the time we process, and we dispatch, it is a 2.5 month process. So unless a customer can plan 2.5 months to 3 months in advance, it is very difficult to get these orders. So a lot of the orders they come to us last minute that they want the material within two weeks. Whereas, for us to arrange the block, to process the slabs, and then do Cut-to-Size take minimum of four weeks to six weeks.

Pranoy Kurian: Okay. So you are saying the processing part on your end would take four weeks to six weeks.

Sahil Arora: Yes. So the customer has to plan at least three months in advance that they will receive the material.

Pranoy Kurian: But see, even for them there, they would also take four weeks to six weeks to process it or cut it?

Sahil Arora: A lot of the times they have the slabs available with them, so we need four weeks to six weeks to get the block, process the slab and the Cut-to-Size. So they would already have the slabs and stuff, all they would have to do is Cut-to-Size which would take between one week to two weeks.

Pranoy Kurian: Okay. So but do you think this could be a meaningful growth driver when because right now we are single-digit side your revenue. But this could double your opportunity size, right?

Sahil Arora: Absolutely. Just like we were discussing about the transport cost playing a big factor and I was looking smaller units as well, this does reduce a lot of transport cost for our customer. Of course, the cost of labor in India is much lower. So definitely at a lower price we can process better quality than what they can do. So it is a huge opportunity for us.

Pranoy Kurian: And the Brazilian players and European players are they doing the same thing this Cut-to-Size?

Sahil Arora: The premium jobs or the more difficult jobs are usually handled by the Italian. Generic jobs are mostly handled by the Chinese. From India there is no good professional Cut-to-Size project company right now.

Pranoy Kurian: So would we be able to compete with China and certain kind of...



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- Sahil Arora:** In cost we will not be able to but in the quality definitely we will be way more superior to it.
- Pranoy Kurian:** So you think, in between generic and premium there could be some....
- Sahil Arora:** Indian origin material.
- Pranoy Kurian:** Because they are also importing the raw material from us, right?
- Sahil Arora:** Yes.
- Pranoy Kurian:** So then how come this will comparative because the raw material has to go to them then again they have to export it, right?
- Sahil Arora:** Certain colors but not all the colors.
- Moderator:** Thank you. We have the next question from the line of Bhavik Mehta from Brescon. Please go ahead.
- Bhavik Mehta:** Sir, I just wanted to understand that based on our current capacity, what is the capacity utilization as of now? That is first part of my question. And second is, is the gross margin about to remain the same throughout the second-half as well? Or is there any scope of any improvement there?
- Sunil Arora:** Yes, like we have explained in the beginning itself because of the Engineered Stone getting popular, our share of the market has really come down. So definitely we are not able to utilize our machine as well as we were able to do in the past. Right now, our production capacity is running at close to 60% of our total capacity. So, yes, it is down compare to previous year.
- Bhavik Mehta:** Yes. So is there any scope for improvement here? And the second part is that is there any scope for improvement for the gross margin from hereon?
- Sunil Arora:** This year, we are still finding it difficult actually. Like we explained earlier this Quartz strength has just started in last two years not more than earlier. And it has really caught up for the time being. But what we feel is that in future, yes this trend has to change it will come down and the natural stone would be back in market. So that is the time, yes, we can hope for better market share.
- Bhavik Mehta:** Okay. And on the gross margin front, do you think that there is any further scope for improvement?
- Sahil Arora:** So as long in this we have a lot of fixed cost, so if the volume goes down then definitely we will have issue.



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- Bhavik Mehta:** No, other than fixed cost if I just talk about the variables.
- Sahil Arora:** Only on the variable cost.
- Bhavik Mehta:** Yes.
- Sahil Arora:** Yes. Definitely we are working on bringing down the variable cost for the quite some time.
- Bhavik Mehta:** Suppose with the variable, the contribution margin I think, it was 37 last year same quarter the move to 33. So if you could highlight that is there any scope for material consumption cost related reduction or any other or it might remain the same?
- Sunil Arora:** It looks like it will remain the same only what we have been doing in this first-half of this year. We expect a similar kind in the next half also.
- Bhavik Mehta:** Okay, understood. And another point that you mentioned that you are planning to increase the number of units to smaller sizes and different location. Do you think, your debt getting changed to any levels from here on?
- Sunil Arora:** First of all, you understand that is a shift in idea, shift of thinking or it is shift from what we use to think 20 years back. Today we have to think differently, we cannot do the same way what we were doing for so many years. So it is a new idea, new concept and we are still working on that.
- Bhavik Mehta:** Okay, understood. And the last part of my question is that understood that Rs. 4.5 crores has been involved within GST cash flow. So now from hereon, I would suppose that this would be a norm that this amount would be introduced into your working capital. So when do you see the impact neutralizing or getting away or becoming the norm as such or do you think any further?
- H. Panigrahi:** There is no information from the Government about the refund mechanism and even if it is not there then it can be offset against DTA clearances. So by the time the Government introduces a refund mechanism, we can offer against available credit there and it can be knocked off.
- Moderator:** Thank you. We have a follow-up question from the line of Sayam Pokharna, as an Individual Investor. Please go ahead.
- Sayam Pokharna:** Sir, the warehouse last year you opened has it helped your sales in anyway?
- Sunil Arora:** Yes, this warehouse definitely helped us in making us at least whatever what we have been able to do sales is only because of that warehouse. Since that like we explained the market has share has really come down. So today customer they want what is readily available with you. I



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think, we are surviving today whatever business we are able to do is because of that warehouse to be very frank and honest with you. This warehouse has really become like our plus point and we are able to do better than our competitors.

Sayam Pokharna: Okay. And in the GST regime are the advantages or EOUs gone away?

Sahil Arora: As of now, yes it looks like all the advantages of being anEOU has gone away.

Sayam Pokharna: Okay. And sir, given the multiple headwinds that you face across the industry and in your business how do you expect your revenues to grow this year? So what kind of revenue expectations do you have?

Sunil Arora: That is like when we recently started a new machine multi-wire for cutting Quartzite it is a new product, we just add one month ago that will definitely give us better revenue in terms of value and the profitability also.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Gaurav Sudfor closing comments. Thank you and over to you, sir!

Gaurav Sud: Yes, Thanks, Aman. On behalf of Kanav Capital Advisors that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.

Sunil Arora: Thanks so much. Thank you, everyone.

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