



**“Aro Granite Industries Limited Q2 FY-16-17 Earnings  
Conference Call”**

**October 25, 2016**



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



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**Moderator:** Good day ladies and gentlemen and welcome to the Aro Granite Q2FY2016-17 Earnings Conference Call hosted by Kanav Capital Advisors. As a remainder, 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, 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 Sood from Kanav Capital Advisors, thank you and over to you sir.

**Gaurav Sood:** Thanks Vivian. On behalf of Kanav Capital Advisors, this is Gaurav Sood, we welcome everyone for joining this Q2 FY2016-17 Earnings Call for Aro Granite Industries Limited. The results have been mailed to you along with the press release and it also will be available at 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 – Corporate Director (International Marketing); Mr. Sundara Rajan – CFO and Mr. H. Panigrahi, who is the Company Secretary.

We will be starting this call with a brief overview providing about the company's performance and then we will follow by a Q and A session. I would like to remind you that everything said on this call that reflects any outlook for the future which can be constituted 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. I would also want to highlight that going forward we will aim to do the con-call to discuss our performance on a six-monthly basis. With that said, I will now turn the call over to Mr. Sahil Arora, over to you Sahil.

**Sahil Arora:** Good afternoon everybody. From behalf of the management of Aro Granite Industries Limited, we thank you for joining the discussion on the half yearly performance. With the difficulties behind us, the first-half of FY16-17 sees us bounce back. Sales have increased by 8.86% as compared to the first six months of the previous year. This has resulted in an almost 50% increase in EBITDA, which has also been helped by the EBITDA margin improving from 10% to 13.85%. Though our portfolio of colors is growing at the same time the color pallet is shrinking, this current trend of only black, gray and white shades is limiting the sale of colored materials. We have added colors from Rajasthan which along with some new white colored queries from the South have helped in maintain our share in the global stage.

A new 11,000 square meter warehouse is operational with only the road work and landscaping work pending. The warehouse has enabled us to better display our current stocks which in previous years we were unable to do due to space constraints. With customers moving to a



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stock and sell model, our ability to show visiting customers our entire portfolio gives us a competitive advantage over our competition. This quarters numbers would have been very similar to large quarter had we not lost half the quarter to border issues between Tamil Nadu and Karnataka. The protest over the Kaveri water issues which effectively closed the borders between Karnataka and Tamil Nadu prevented commercial vehicles to cross the border resulting in a domestic sales or DTA sales to come to a complete standstill; domestic market which is 8% of our sales was completely closed to us for 6 weeks out of the quarter. Block movement from Karnataka to Tamil Nadu was also effected during these 6 weeks.

During the quarter, we felt a slowdown in the tile market. The yearly business cycle means that Q3 is the slowest quarter of the year; however, business cycle has affected the tile market in September itself. We are looking at alternative markets for the tile plant and are working with some query owners to offer special materials for tiles for the secondary market like Croatia, Romania and Serbia. The INR realization has come down due to strengthening Indian Rupee. There is a difference of more than Rs. 1 in the USD INR exchange rate which has shown in the INR figures.

During the quarter, we were able to prepay our loans with HSBC and have closed all our limits from HSBC. This has helped us reduce our working capital needs. This has also resulted in a reduction in a reduction in debt equity from 0.85 to 0.78. With Countries like Columbia, Peru, Libya which were in crisis in the previous years are beginning to recover and open up again and countries like Kosovo, Romania, Israel, and Iran beginning to shine the difficult environment of 2016 seems to be easing out a little bit. With our foothold in core markets getting stronger, we are back on track after a difficult year.

We thank you for joining us on this con-call and I now open up the forum for questions.

**Moderator:** Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

**Viraj Kacharia:** Yes, thank you for the opportunity, just a couple of questions. First is if you could provide some update on competition from Brazilian players and US market.

**Sahil Arora:** In the recent year, the Brazilian Riel has depreciated quite a bit to an extent of almost 40% at the limit, so what that does is there realization in Riel has not changed; however, their realization in US dollars or the pricing in US dollars has come down drastically from anywhere between 40% to 60%; of course, this has affected our business especially in the US because for Natural Stone, the Brazilian material was up to 80% of the market. We were also importing about 30% of our total requirements from Brazil, 10% was from other countries like Norway, Finland etc., so that 30% has been affected slightly for some of the more price sensitive materials.



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**Viraj Kacharia:** Okay, so how it has been the overall what you say the overall export from Brazil and US for these kinds of products right now, I mean.

**Sahil Arora:** For sure, it is growing in the US especially for the basic materials which were sub-\$4 a square foot material which we were not in the market for. Indian granites are in the range of \$6 a square foot, so as it we were not competing for the \$4 square foot market, that \$4 square foot market has come down to now \$3 square foot market.

**Viraj Kacharia:** Okay, got it. And you know if you see the sales of granite from say India or China and Brazil, the US now we have seen a sharp collapse of 15% to 20% you know in recent time, so is it towards the market is shifting towards calls that has been main reason behind it or is it overall the demand being weak in US for granite.

**Sunil Arora:** I am Sunil Arora here, MD of the company. So I will answer this question at least. Basically you have like you pinpointed the main reasons of, I won't say that Indian granite business has come down, it is at the same level like previous years, it is not growing anymore because that market has been taken over by engineered stone porcelain ceramic slab actually that is the reason the share is not increasing in granite from India. Also like Sahil explained in his opening remark that the colors have become very limited in the International market. Right now in US the major demand is only for white, gray and black. Colors like brown, green, gold, they are completely out of fashion for the time being. its like a fashion industry but the good part is that we work with more than 50 countries down the world, so US is only about 20% of our market, so as such overall we are not affected that much with this change of market trend, we are able to still grow in our sales as compared to the previous year.

**Viraj Kacharia:** Okay but the overall market in US is by and large countertop market is it I mean is the demand equally strong or is it are you seeing some weakness in demand as such.

**Sunil Arora:** No right now, US market is doing pretty well as far as housing industry is concerned or even the projects are concerned. In fact, lately we have been able to take up some good projects in Chicago, Washington and different parts of USA.

**Sahil Arora:** In the last quarter, we have done two projects in the US, there was a JW Marriot that's being built in Washington DC for which we supplied vanity tops for over 250 rooms and then the Ritz-Carlton in Chicago is undergoing renovation so we have supplied a small part for the flooring of the reception area, it is about 3000 square foot of black material which is coming from us. So, these are areas that are going to pick up in the coming years and we are setup now at the point where we can take up these projects.

**Viraj Kacharia:** Okay, just two more questions; one is from the overall pricing trend for granite you know how we are seeing that in key major export market and if you can provide an outlook you know in the next one year, how you see the demand panning out.



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**Sunil Arora:** See the price also depends upon our raw material block purchases. Unfortunately in India especially where we are in Tamil Nadu as we have already spend earlier also, more than 200 queries had closed down in the Madurai sector about 4 years ago, so they are very few queries which are now working and they are the one which are fulfilling the demands of our entire industry, so obviously they keep increasing price as per demand and supply so as far as the your question that the pricing, we feel that the granite market pricing will not really come down in any way, it will remain like what we have been doing in the past and as and when the market little bit improves we will be able to get the extra prices.

**Viraj Kacharia:** Okay and on the outlook for granite over next 1 year.

**Sunil Arora:** Definitely granite outlooks seems quite good for us especially not only in USA but round the world I would say like I was mentioning that we are working with more than 50 countries and now we have added even new countries in the last one year especially in East Europe, we have made good business in Slovakia, we have done in Australia, Hungary and also in South America markets have opened up and even the Middle East market where there were problems earlier, business started again. Market like Egypt as well as picked up very well.

**Moderator:** The next question is from the line of Siddharth Agarwal, an individual investor. Please go ahead.

**Siddharth Agarwal:** Thank you Sir for taking my question, sir my first question is sir you have the portfolio of more than 50 color, so which are the top color that you have sold in this quarter and then half year and last financial year. Do you see any trends there?

**Sunil Arora:** Yes sir the trend that we are seeing right now is in the white, grey and black shades. So when you say white, grey and black shades, we have more than 25 colors in those shade variations so those are the colors that we are selling. Like my father mentioned earlier; colors like browns, reds, gold they have vanished from the market and browns used to be a staple or a basic Indian color that almost everyone used to carry.

**Siddharth Agarwal:** And sir how much sales do we expect from Africa and South America once those markets are fully opened?

**Sunil Arora:** Sir South America put together used to be roughly about 7% of our total sales in previous years, so once they do recover we can expect them to go back to those levels, however, still markets like Argentina have not recovered, so right now majority of our South American sales are in Columbia and Peru.

**Siddharth Agarwal:** And sir while looking at your financial statements I see that your finance cost has increased to by roughly 27% to 1.6 crore in spite of a decrease in debt so is it because of a decrease in working capital?



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- Sunil Arora:** Actually, we have income on our processing time one time processing fee in the month of August 31<sup>st</sup> around 35 Lakhs. Because of this finance cost has gone up in fact.
- Siddharth Agarwal:** So this was a one of thing which means probably the addressed cost in Q3 would again come back or would it remain elevated?
- Sunil Arora:** Exactly that is what we are looking to.
- Siddharth Agarwal:** Okay and sir we are also exhibiting in the stone fares so these are directed to our own customers or is it to help more our distributors?
- Sunil Arora:** No we have been participating in exhibition from last more than 20 years, so generally we do meet our regular customers as well as we do come across some new customers in most of the exhibitions, it helps in both ways, retaining your existing customers, meeting them under one roof and also getting new links.
- Siddharth Agarwal:** Okay and sir what percentage of sales does our top distributor contribute?
- Sahil Arora:** Our top distributors from the US, they contribute close to 7%. Actually we prefer to spread out rather than depending upon few customers. We like to spread out first of all, around the world, different countries, different cities, different distributors. Our top ten distributors put together from all around the world only comprise of about 17% of our total sales. Yes because we have spread out to more than 50 countries, in each country maybe we have 1 distributor, in some cases like the US may be we have about 20 distributors so all put together our risks are pretty well-spread out.
- Siddharth Agarwal:** Okay and finally sir one last question if I can squeeze in, your customer cut to size segment is that the same target which we were selling earlier or is it entirely new market?
- Sahil Arora:** In fact, it is our existing customers are the target market, so they are the ones who will go out and get projects from their domestic area. So for example when we did the project in Chicago, we had a customer in Chicago, who was in touch with the Ritz Carlton and the builders where the renovation of the Ritz Carlton and then this specified our granite which we supplied, so it is existing customers that are the target audience.
- Siddharth Agarwal:** Okay great that answers all my questions.
- Moderator:** The next question is from the line of Prabhat Anand an individual investor. Please go ahead.
- Prabhat Anand:** Hi, thank you sir for taking the question. Sir my first question is which are the new market you forayed this quarter and which new market you are planning for the year ahead?



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**Sahil Arora:** Sir some of the new markets that we have explored this quarter are Slovakia, Serbia and Croatia, and existing markets like Romania are expanding so these are the markets that we are going to be looking into for the next quarter or so, with Q3 usually being a slow quarter for us due to weather effects around the world, we will be concentrating more on our markets like Libya where we have regular customers and the weather effect is negligible.

**Prabhat Anand:** Okay and on the realization side what is your realization for slabs, tiles and cut to size and also if you could give me gross profit per square meter?

**Sahil Arora:** Gross profit, in fact the gross profit we have not worked out but we have worked out the sales realization by square meter. Yes the sales realization it comes to so far sales are concerned, it is 2344 per square meter, and for slabs are concerned it comes to 4577. Yes Slabs, the second figure is for slabs 4577 is for slabs and for tiles it comes to 2344 for this quarter and cut to size are merged to slabs.

**Prabhat Anand:** And for cut to size.

**Sahil Arora:** It is merged with slabs. We don't maintain separate details, account for this cut to size. It is clubbed together with slabs.

**Prabhat Anand:** Okay and what is the percentage of raw material you imported this quarter?

**Sunil Arora:** There is a bit in reduction like Sahil was explaining earlier, there is reduction in import of blocks because of the Brazil competition, this quarter it has been almost like about 15% of our total top block requirement.

**Sahil Arora:** But it should also be noted that our import sometimes are for half yearly so sometime we import in a particular month and then we use the imports for the next 6 months, this helps us get a better pricing from the quarry owners.

**Prabhat Anand:** Okay and what percentage of raw material is sourced from Rajasthan?

**Sunil Arora:** It is growing almost every quarter so it is roughly it is coming up almost like 5 to 7% I would say.

**Prabhat Anand:** 5 to 7% okay and just as a comparison, what is the impact on raw material prices when you source from Rajasthan instead of South Indian states?

**Sunil Arora:** Yes of course the transport cost is quite high so the difference in transport you can say is.

**Sahil Arora:** To be in cubic meter terms when we transport from Rajasthan it is between Rs. 15,000 to Rs. 20,000 a cubic meter, when we get it from Andhra or Telangana it is about Rs. 10,000 a cubic meter, when we get it from Karnataka or from Tamil Nadu it is anywhere between Rs. 2,000 to



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Rs. 5,000 a cubic meter. So you can say it is almost 3 to 4 times of price of just transport, the raw material cost itself is pretty much in the ball park of white material from any of the other states.

**Moderator:** The next question is from the line of Bharat Pitti an individual investor. Please go ahead.

**Bharat Pitti:** Thank you for giving me the opportunity to speak. Sir it has been quite a bit time for Aro Granite to expand, last expansion came some time in 2010 or maybe 2011, so almost 5 years so is any plan to expand and the CTS machines, there are 2 CTS machines which were installed in September so is the impact of the production of these CTS machine be felt in the coming quarter or already been felt in the last quarter or the quarter of Q1.

**Sunil Arora:** Bharat, this is Sunil here, so actually you know things from last 4 years have been very difficult in terms of arranging rough block after this Madurai problem when more than 200 quarries had shut down so that is the reason we are not able to expand further but yes now in the last 6 months as we explained earlier, we have started with the cut to size, we have added to CNC machine, bridge cutting machines, which is for more value addition than increase in production, we are able to more value addition which will give us more sales also at the same time better profits.

**Bharat Pitti:** And sir, at what percent is of capacity utilization we are running at the moment?

**Sunil Arora:** At present Gang Saws all are running in the capacity of about 85% and the tile plant like Sahil was explaining this quarter has been slow, it is in the range of about 60%.

**Bharat Pitti:** And is there any plan on cards for diversification apart from adding or any diversification is on card.

**Sunil Arora:** Not really, we are very focused in this business as you have been known to us from the last 25 years. We have always been very steady with our way of working and we can continue to the same thing except that we foray into different product like we just started to cut to size and may be we looked at some other product but within the same business, we would like to look for some other products.

**Bharat Pitti:** And what is the yield of the finished product from the blocks as far as it is concerned from the Rajasthan raw material, is it the same what was from Tamil Nadu raw material.

**Sunil Arora:** Yes, generally better that we buy blocks from around the world or we buy within India, the yield is our benchmark is roughly about for 2 cm we calculate about 30 square meter per cubic meter.

**Bharat Pitti:** Okay and the Kaveri issue that impacted your business for 6 month or so, now it is totally settled and now domestic sales has completely revived.





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**Sunil Arora:** Yes from last 2 weeks everything is normal, the movement of transport everything is normal, absolutely normal now.

**Bharat Pitti:** And as the pound has pounded by 15% or more, sir is it going to impact our sales or purchase?

**Sunil Arora:** The Pound, we actually don't sell in pounds or our total exposure to Pounds in customer terms is only about 4%.

**Sahil Arora:** Actually we don't sell in Pounds at all, we sell only in Euro and US dollar. Even if our customers in UK, we just sell them only in Euro or US Dollar, so this Pound is not going to effect is in as such but of course it affects our customers there, their cost is going up and there probably purchases would be effected or sales will be effected.

**Bharat Pitti:** And the one last question, sir.

**Sunil Arora:** Ms. Bharat we did not hear your question sir, could you please repeat.

**Bharat Pitti:** It is the Silver Jubilee year of the company, 25<sup>th</sup> year, sir is there some jubilation for the investor.

**Sunil Arora:** Last year was 25<sup>th</sup> year sir, we have already crossed 25 years, in fact we have been regularly doing but you know like we said from last 3 year we have been going through a difficult period but if you see in our company last 25 years track record if you see, we have grown step-by-step every year and we have every year dividend has been right from a day when we came out with public issue and also bonus have been issued on a regular basis, so our track record says a lot about our company than I have to say anything else sir.

**Moderator:** Thank you. The next question is from the line of Vinod Malviya from Florine Tree. Please go ahead.

**Vinod Malviya:** Yes sir, my question is slightly longer term in nature. As you said in your initial remarks that the granite demand in US has been not growing as the Quartz which has been really taken up the market and growth has been phenomenal in the Quartz Countertop. So as a company, do you have any plan to enter that segment because the availability of raw material in India as what I have been reading is abundant, you have a very good network in terms of distribution and selling, you sell across 50 different countries. So, it is just a matter of setting up a plant and selling the product. All the other things have been well established for you. So do you plan to start selling or start producing Quartz anytime two years down, three years down, any such plan?

**Sunil Arora:** Main problem with the Quartz is that it is a very simple technology. You require only quartz which is available round the world and you need pigment and you need the epoxies. So at the end, it is not a very big rocket science in this, anybody can make it. So now the problem is; in



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China they are producing in mass production. In the next five years, as per our study, the production will be not 5x, may be 10x more than what they are doing today. So they are going to capture the whole market and it will be very difficult for us in India to compete with Chinese people. So that is the reason, we did some preliminary study on this project at least and we felt that in India it will be very difficult for us to compete with China.

**Vinod Malviya:**

But what I have read is that you know there are 2 technologies; one is Breton technology and the other one is the Chinese technology which you said, so the Breton technology is very niche in terms of the product, quality and everything. So that space more of like a premium product which is really growing. So you can always go and differentiate your product compared to the Chinese product and have a different market altogether, right?

**Sunil Arora:**

We did think about that and we studied that part also but the difference is huge that way. The difference between the Chinese machinery, say for example, with Chinese machinery the project cost will be about Rs. 50 crores and with the Breton machine it will be about Rs. 300 crores. You see that kind of difference you can imagine that there is a huge difference between the two project setups and then as far as the end product is concerned, it is the same only whether it is made from the Breton plant or whether it is made from Chinese plant. Some of the companies which are doing well with the Breton plant, they started almost like 10 to 15 years back and they have branded their product, they are doing marketing in a different way. For us to start from scratch at this stage, we feel it will be very difficult to compete with China.

**Vinod Malviya:**

Which companies are these; who are selling quartz in India?

**Sunil Arora:**

Around the world, Silestone is very popular, Caesarstone is extremely popular.

**Vinod Malviya:**

Is there any player from India?

**Sunil Arora:**

In India there is one plant, Pokarna in Vizag under name of Quartz.

**Vinod Malviya:**

Yes, even Pokarna I remembered they were also a granite player and then they have shifted to quartz, so I was just wondering that you all....

**Sunil Arora:**

They shifted almost like 7-8 years back and they did have a tough time for 4-5 years, only from last 1 year there have been able to do it.

**Vinod Malviya:**

So your major concern is, that the Chinese is going to increase the capacity drastically and they will be over supplying the quartz in the Indian markets?

**Sunil Arora:**

Yes and the prices will be really, we will not be able to compete, they will be selling much below our cost.



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- Sahil Arora:** In the last 1 year we have already seen the slide of prices, the median price is going down from \$60 a square meter to already \$40 a square meter. So already there is a huge drop in selling price.
- Vinod Malviya:** But the price realization what a Chinese company gets and a Breton technology guy gets is the same, you mean to say?
- Sahil Arora:** The Breton technology guy probably gets a maximum of 10% more, not more than that for sure.
- Vinod Malviya:** And that will not compensate for the initial CAPEX what you would be doing?
- Sahil Arora:** Yes and most of the Breton companies around the world are branded companies like Caesarstone and Silestone who have been in this business (+15) years, so they get a better realization because of the extreme budget that they have for their marketing. That is the only reason they would get a slightly better realization than a Chinese factory.
- Sunil Arora:** And the second problem is that now the Porcelain slabs Ceramic is coming in a big way from Europe, especially Spain and Italy. That we feel would be another challenge.
- Vinod Malviya:** Can you just provide some detail about this; I am not familiar with this word.
- Sahil Arora:** Porcelain slabs are, they are made of Porcelain of course and they are in similar sizes to Quartz and the thickness that they process is between 3 mm and 12 mm. The advantage of this is that they are copying lot of marble products like the Popular Calcutta, etc. The problem in marble is they are not acid resistant or stain resistant or scratch resistant and the same problem is with Quartz. Quartz is also not stain resistant, acid resistant or fire resistant. When you take Porcelain on the other hand, it is all of these things. So it is definitely a superior product, the price range of Porcelain is much higher, currently it is almost double the price of Quartz but it is still cheaper than the higher range high-end marble.
- Sunil Arora:** But having said that, Natural Stone market will always be there, that is why we rather focus on Natural stone market than to go on for this artificial stone. So it is basically a fake material, this is a fake product.
- Vinod Malviya:** Right. So from a Aro Granite perspective, you all are going to continue as a granite player only. You are not going to plan any other diversification?
- Sunil Arora:** At present, yes definitely we will just stick to our Granite business but we, like we already added this Cut to Size and we will expand in that area.
- Moderator:** Thank you, we have a follow-on question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.



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**Viraj Kacharia:** So you talked about this product which is picking up, has found a great flavor in Europe. What exactly is this product?

**Sahil Arora:** There are 2 products; Porcelain and Quartz.

**Viraj Kacharia:** Sorry I did not get the first one.

**Sahil Arora:** Porcelain slabs, the same material that is used to make WC toilets and sanitary ware.

**Viraj Kacharia:** And currently, the primary market is it only in Europe or is it also finding flavor much in your assessment?

**Sahil Arora:** It is not picking up very much right now because the chain how it goes is you have the factory that is manufacturing slabs, you sell it to wholesalers, and wholesalers sell it to fabricators. Then fabricators are the ones selling to home owners. So fabricators are usually very small companies with maximum 5-10 employees. And this is pretty very large fabricator we are talking about who has 10 employees. So they are not willing to change their way of working to take up Porcelain manufacturing because we need some special tool and some special techniques to manufacture Porcelain using same machinery that we use for Granite and Marble and Quartz.

**Viraj Kacharia:** And you mentioned about, there has been only a 10% difference between the price of a Breton Quartz and a Chinese made Quartz. Just from my observation, say in last 1 year, how is the market mix say in Quartz alone has changed, say earlier it was majorly Breton based and now since you talk about increased Chinese capacity coming on stream, so how is the market mix moved?

**Sahil Arora:** One thing we see is that a lot of wholesalers, especially in the US, they have tried to bring out their own brand by buying slabs from China. So ABC Company could buy Quartz slab from China and name it ABC quartz and start distributing in the local area. This is one of the trends that we are seeing recently is that localized brands of quartz have started coming up and most of them are buying from China.

**Viraj Kacharia:** And then the mix, how much would be Chinese and say of the market right now in Quartz?

**Sunil Arora:** 70% Chinese and 30% maybe Breton.

**Moderator:** Thank you, the question is from the line of G Vivek from GS Investments. Please go ahead.

**G Vivek:** First of all, I would like to congratulate you, the only company in my memory who provides from 90s, so many companies had come out with the IPOs and I think the Aro Granite might be the only one standing tall and so what were the factors for it so that you have been able to player that 15 years' thumb rule and what about the competition now? Actually I was late in



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joining the call so I just wanted to understand how you are tackling the competition from Brazil, problems being mines closed in Tamil Nadu and your close proximity, so that big edge is gone and are there any new mines which have been opened recently in Tamil Nadu and in your close proximity please?

**Sunil Arora:**

I will just start with your first basic question that how we have done it in last 25 years. Our basic philosophy has been a growth step by step; it has never been that we have grown in a particular year with a big percentage. It has been very gradual growth but it has been there every year except for few years we had a flat graph, otherwise graph has been going up which has kept us going on from last 25 years. Having started with only 2 Block Cutters in 1990 and today we have 12 Gang Saws and 4 Cutting Centers. We started only 2 containers per month, today we do almost 200 containers every month. So these are the ways we have grown in last 25 years. Then coming to our general problems, so this problem started about four years back with the Madurai sector completely closing down which was our main hub for raw material, there were almost like more than 200 quarries, some with very popular granite which was popular all over the world and in the domestic market. So that definitely was a big dent for our market and it gave us a little bit setback and we were unable to grow, that is why the last year we had drop in sales of almost 15%, first time in 25 years. This year we are back and we are looking at the same levels what we were in the previous year. What steps we have taken to improve ourselves is that we also started importing blocks from other countries; we started getting blocks from Rajasthan. Now also, some new quarries have just opened up in Tamil Nadu which is also helping us. So overall, yes this is a big challenge for the shortage of blocks but we have been able to cover up and we are back on track.

**G Vivek:**

The challenge from Brazil, Sir?

**Sunil Arora:**

Yes, Brazil that is different, from last one year there has been a drop of currency in South America for almost 50% to 60%, whereas Indian rupees has de-valued I would not even say 5% decline. So we are not unable to reduce our prices as compared to Brazilian companies. So like earlier we were importing almost like 40% of our blocks from Brazil, now it is down to 10% to 15%.

**G Vivek:**

But the transportation cost being so high, do you have the pricing power to pass on the complete transportation, other cost and what is our note in that regard, so anything unique which we are doing which other people all over the world cannot do it?

**Sunil Arora:**

No, it is not that we are doing something really unique. Actually, this granite itself is a very unique product. So there are very few good quarries in Brazil which we have good hold or control over it and the quarry owners they prefer to give it to few companies down the world. It is not that they distribute to everybody. So those are the colors we are specializing. I am not talking about the basic material; we do not buy basic material from Brazil, we buy only high end materials which are very specialized which are available in small quantities. So it goes to



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Italy, it goes to some part in China and some to India. And we are only one in India to get those blocks.

**G Vivek:** I am talking about the Indian quarries and the granite and what is the thing which we are doing unique in India vis-à-vis competitors?

**Sahil Arora:** What we are doing unique in India now is that we have setup a warehouse. It is a 11,000 square meter warehouse. So in that we can display all of our materials; the entire portfolio, everything that is in stock. So we have customers who are making flying visits, they are coming from Australia. Earlier they would have to come for maybe 3 weeks to buy 15-20 containers, now they can come one day they can pick up 15, 20 containers in our factory right over here and then go back. For them to spend a single day away from their business means they are closing the business down for single day. So of course, there is a loss of revenue for them. So that is how we are capturing more market.

**G Vivek:** How big is the opportunity and the business potential?

**Sunil Arora:** Right now, in the level of 250 at present and we hope to go up till maximum 300 you can say for the existing capacity what we have.

**G Vivek:** So not an issue as far as the demand part is concerned, so what all demand is not an issue?

**Sahil Arora:** This level we sell out to more than 50 countries around the world, so Brazilian granite was mostly popular in The US market. When you look at European market which is our strong point, is mostly dominated by Indian stones.

**G Vivek:** And Rajasthan transportation cost might be heavy because I was late in joining the call but still not an issue for you Sir?

**Sahil Arora:** Rajasthan because you know factories to process granite and the factories are there that process granite, factories that are there they do not have the same kind of technology and the same kind of finish that we do. So currently, there is no problem for us to transport it here and manufacture here.

**G Vivek:** What about this R K Marbles and the mines in Katni in Madhya Pradesh, they are producing something different or..?

**Sunil Arora:** They are most into marbles, not into granite I think. There is a small difference in the machinery for marble and granite. It is a total different way of processing.

**G Vivek:** And granite, who are our competition right now sir, Gem granite used to be a company I remember earlier.



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- Sunil Arora:** Yes but now our main competitions are from Tab India which is in Hosur only, otherwise Pokarna in Hyderabad. They are the 2 main competitors.
- G Vivek:** Gem Granite used to be there I believe earlier.
- Sunil Arora:** Now they have not updated their machinery with time and they have old machinery and they are not really doing that well.
- G Vivek:** So in granite we are now the largest in India.
- Sunil Arora:** Yes, we in fact got 'Top Export' award from CAPEXIL for the highest export for Natural stone from India from last 2 years.
- Moderator:** Thank you, we have a follow on question from the line of Siddharth Agarwal, an Individual Investor. Please go ahead.
- Siddharth Agarwal:** Could you talk a little bit about what are we doing to reduce our working capital intensity of the business?
- Sahil Arora:** So, one thing we did is we closed our account with HSBC, so the entire limit that was there with HSBC we closed and we decide not to transfer it to Bank of Baroda. So, by limiting ourselves to a smaller amount of working capital available to us we have to work on reducing our working capital limits.
- Sunil Arora:** Our debt Equity ratio in the last quarter was 0.85 and now it is 0.78, so you have already in one quarter itself.
- Siddharth Agarwal:** And sir this new warehouse that we have setup what was the total CAPEX that went into this?
- Sunil Arora:** Total CAPEX cost has been roughly Rs. 27 crores, has been total investment in that which includes complete work like lighting, outside gardening work, it is done in a very corporate way for the international standards and with the cranes.
- Siddharth Agarwal:** And does this Rs. 27 crore would include land as well?
- Sunil Arora:** No land we already had with us basically but development work was very high because this land we were using for dumping our slurry so which we moved it to another land and then this land had rocky effects, so to remove the rocks it was quite a challenge.
- Siddharth Agarwal:** Okay, so this Rs. 27 crore included the land development. And finally sir about the competition intensity right now, so both in domestic as well as exports, do we feel that is reducing or is it still very competitive?



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- Sahil Arora:** It is still very competitive with many factories opening up in the last 2 years, so competition is not reducing it is growing and not only are we having competition from within our own products we have other products like engineers stone and porcelain that are also competing with us. So, the competitive environment of course is getting more difficult.
- Moderator:** Thank you. The next question is from the line of Shankar Dutt an Individual Investor. Please go ahead.
- Shankar Dutt:** You would have inventory of other colors beside grey, blacks and whites, so how do you plan to dispose-off your inventory?
- Sahil Arora:** It is not that there are zero sales of those colors, the sales have reduced, so currently what we are doing is we are only buying blocks in white, grey and black and in colored materials that we know we will have orders for in the next 2 or 3 months.
- Shankar Dutt:** So, currently we do not have any inventory apart from white and grey, black?
- Sunil Arora:** We do have, we are trying to say that this was the trend we were talking about mostly in the US market, not around the world, so I think basically the request what we were getting is more in the US market, we have a rework with more than 50 countries around the world, so this specific what we said is color trend is in the US market, not all over the world.
- Shankar Dutt:** And sir what is the percentage of your raw boat inventory in **(Inaudible)** 43:53 and how do you dispose of rock that is not selling in the market?
- Sunil Arora:** First of all it is not a perishable item so granite block, just to explain you it is not that when you want the material it is available, you want to buy as and when it is available actually. So, with this reason we have to keep higher inventories and to service our customers in a short time of period and otherwise in today's market customers are not getting to wait, if we have the material they take it otherwise they go somewhere else.
- Shankar Dutt:** Do you have any record that how much is more than a year old?
- Sunil Arora:** Yes, we have complete age wise detail of our, for raw material concern more than 3 years' stock is just Rs. 96.68 lakhs.
- Shankar Dutt:** And more than one year?
- Sunil Arora:** It comes around Rs. 14.5 crores.
- Shankar Dutt:** And sir you said that your sales in India is 8%, do you have any plan to increase that sales, percentage wise?





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**Sunil Arora:** We always try to sell more in India market but the taxes are so high, so we are unable to compete with the domestic companies which are selling at very low prices.

**Shankar Dutt:** What would be your realization in India and export markets, difference?

**Sunil Arora:** Price wise the local market, so generally the units which are for domestic markets their pricing and our pricing is a huge difference also not because of the material and also the taxes are quite high when we sell in the domestic market.

**Sahil Arora:** To give an example of the taxes, first we have a VAT of 14.5% and then we also have excise duty of 25%, total out together 40%. So, if you are selling something for Rs. 100 a square meter we have to charge Rs. 140 to the customer.

**Shankar Dutt:** Okay, sir you said there is very stiff competition from Chinese products in India, what is the difference in pricing of Indian products and Chinese products?

**Sunil Arora:** No, not in natural stone, not in granite. We were talking about the engineered stone that is what we were discussing actually but if you talk about natural stone, natural granite it is a unique material what we have in India they do not have in China, what they have in China that we do not have in India, it is not available anywhere else in the world. So, granite is a very unique product, if somebody needs Indian material it is with us only, it is not that is available everywhere.

**Shankar Dutt:** Okay and sir your capacity utilization is 85% you said. So, when do realize that you are running out of capacity or something like that and when do you plan to further?

**Sunil Arora:** Right now our issue is not the market, our issue is more of rub block, so slowly now some new queries are coming up in Tamil Nadu area, so as and when raw materials improves, we will definitely look at it.

**Moderator:** We have the next question from the line of Nayan Patel an Individual Investor. Please go ahead.

**Nayan Patel:** First of all congratulations to you in current year for 6 months your net profit and gross profit and topline, bottom line all grew up considerably. I want to ask only one question in the remaining part of 6 months, for October to March 2017, top line and bottom line growth will be better than what would we saw or will it be lesser, just as a projection?

**Sunil Arora:** For a projection we have always been saying that we are looking between (+250) for this whole financial year that is for the top line and the bottom line margins also we are looking at same like what we used to have in the previous year.

**Nayan Patel:** But in previous year there was loss in December quarter?



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- Sunil Arora:** No, what I am saying is the financial year ending 2014/15.
- Nayan Patel:** No, I want to know in this year December quarter, profit of June quarter and September will be maintained or not?
- Sunil Arora:** If you ask only for this December quarter, I would say it is steady for the whole year but if you are looking at only December quarter, yes this....
- Nayan Patel:** No, not only for December quarter nut remaining part of six months?
- Sunil Arora:** If you are asking for the full six months we are looking at topline around 250 and the margins what we have in the previous years of 2014/15 we will be able to maintain the same margins.
- Moderator:** Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for the closing comments.
- Sunil Arora:** So, I would like to thank everyone for joining us. It was pleasure to have you with us and hope we have been able to explain the word of the company and like we said in the opening we would like to do this con call once in 6 months and hope to talk to you again in April. Thanks a lot.
- Moderator:** Ladies and gentlemen on behalf of Kanav Capital Advisors that concludes this conference. Thank you for joining us. You may now disconnect your lines.