



“Aro Granite Industries Ltd.Q1FY2016-17 Earnings Conference Call”

July 21, 2016



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MODERATOR: MR. GAURAV SUD – KANAV CAPITAL ADVISORS



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Moderator

Good dayladies and gentlemen and welcome to the Aro Granite's Q1FY2016-17 Earnings Conference Call hosted by Kanav CapitalAdvisors. As a remainder, all participant lines will be in the listen-only mode andthere will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note, that this conference is being recorded. I would now like to hand the conference over to Mr. Gaurav Sudfrom Kanav Capital Advisors. Thank you and over to you sir.

Gaurav Sud

Thanks Mallika. On behalf of Kanav Capaital Advisors this is Gaurav Sud.We welcome everyone for joining this Q1FY2016-17 Earnings Call for Aro GraniteIndustries Limited. This is the first quarterly concall that we are doing. So we will start with brief introduction about the company and to take us through this result of this quarter and to answer the question that you may have, we have with us Mr. Sunil Arora – Managing Director of the Company, Mr. Sahil Arora – Corporate Director (International Marketing), Mr. Sundara Rajan – CFO, and Mr. Panigrahi – Company Secretary.

We will be starting this call with a brief overview and subsequently we will move on the Q&A. 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 forwarded 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 we have said in the prospectus filed with the SEBI and subsequent annual reports that we have published. With that said I now turn the call over to Mr. Sahil Arora. Over to you Sahil.

Sahil Arora:

Thank youGaurav. Good afternoon everyone. Thank you for joining us to discuss first quarter earnings of Aro Granite Industries Ltd. We extend a warm welcome to you all. Since we are doing the investor call for the first time in our history, I want just give you a small background of our company. The company was started by Sunil K. Arora in 1991 as a 100% export oriented unit for exports of Modular Granite Tiles and Random Slabs. Our unit is located in the industrial belt of Hosur in Tamil Nadu which is ideally located near numerous granite quarries as well as Chennai Port. We currently have a capacity of processing 5,85,000 square metersof Granite Slabs and 3,60,000 square metersof Granite Tiles. We export to more than 50 countries around the globe and have access to more than 100 color ranges. We are the largestexporter of granites out of India having been awarded the top export award from CAPEXIL. We are listed on the Bombay Stock Exchange since 1997 and subsequently got listed on the National Stock Exchange in 2007.

Having given a brief introduction of our company I would like to talk about the performance of the previous quarter. With the difficult year behind us during which we have taken several corrective actions we have bounced back with a strong Q1 in the current financial year. Our



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sales have improved by 12% compared to the corresponding quarter of the previous year and 34% compared to Q4 of financial year 2015-16. This increase is due to the corrective actions that we have taken in the previous year, the result of which come into play today. FY2015-16 was a very difficult year for the Indian granite industry. Many macroeconomic factors affected the export business and coupled with the shortage in raw material in the Indian quarries dampened the outlook. To counter this, we decided to commission a new 11,000 square meters showroom in our current facilities which has been partially commissioned today. This showroom has been one of the drivers for the stellar quarter. With this showroom in partial operation we are able to reduce our work in progress for more than 100 blocks in queue to about 80 blocks in queue. Further, the showroom has allowed us to better display our current finished good inventory enabling us to have quicker sales.

With the expansion done in 2012 from 8 Gang Saws to 12 Gang Saws we had a severe shortage of space in our production shed. By shifting our entire finished stock to the new showroom we have been able to streamline our processes and have been able to achieve better efficiencies from our machines. We have also been able to create space in which we are introducing a new product which is the Cut-to-Size line. For this we have bought two CNC machines from Italy which will start commercial production by September of this year. With this in mind we have taken up small projects in the US, Japan and Germany with our existing customers. This value addition should help us achieve better productivity. We expected to grow to about 10% of our total business in the coming years. The devaluation of the South American Currencies has essentially closed the market as imports in those countries are now twice more expensive. Brazil's Real has devalued by more than 40% in the last one year, has dropped its dollar terms selling prices of granite by more than 40%-60%. This has hampered our growth in the North American market.

With the Russian economy at a standstill our total Russian sales has to come to a crawl. To counter this, we are actively looking to expand to more markets like Slovakia, Singapore and Iran. This year we will be exhibiting two of the largest Stone Fairs in the world namely China and Italy and we look to tap further market. Currently we export to more than 50 countries around the globe and we hope that the number will increase. As Northern African markets recovered from political turmoil we see a small revival in countries like Libya which was a strong market for us in the past. With quarries opening up in Rajasthan and reopening of handful of quarries in Tamil Nadu, the availability of rough blocks has improved. However, there is still a scarcity of good quality material.

With small improvement in many factors we hope that this year will be a better year. I now open the floor for questions and answers.

Moderator:

Thank you very much Sir. We have the first question from the line of Baidik Sarkar from Unify Capital. Please go ahead.



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BaidikSarkar: Could you give the sense of how a typical sales cycle works? How does your model work and at any given point in time what kind of revenue visibility do you have at any point in time?

Sahil Arora: A typical sales cycle begins from purchasing raw materials from the quarry. We buy raw materials from the quarry of South of India like namely Tamil Nadu, Karnataka, Andhra and Telangana and in the recent one year we started buying a lot of raw materials from Rajasthan. This used to be about 60% of our total requirement. 40% of our requirement we import from other countries namely Brazil, Norway, Finland, Madagascar, and Ukraine. So once we receive the blocks we process them, basically cut and polish and then we export them.

BaidikSarkar: Okay. Thanks to that info. I actually meant to understand what drives the sales model, in the sense you spent some time explaining about the importance of fairs that you participate around the world. I am just trying to understand what is the trigger for generating your sales because I understand the bulk of these are B-to-B and you might be generating a lot of leads from the trade fairs. So typically where do you generate sales? How does that sales generation model work?

Sahil Arora: Like we are processing company so we work with Natural Stone, Natural Granite. So the Natural Granite what we have in India is not that you get in the other countries like China, Brazil, South America, other places. So the material what we have with us is absolutely unique. So somebody who is looking for Indian material has to buy from India, from the companies in India only. That's how we get the advantage of in the International market.

BaidikSarkar: Okay. Let me rephrase that again where do your customer origination takes place? How do you generate your customers, your sales leads? At what point in time does it originate and how do you drive that?

Sahil Arora: So most of our customer base is now quite old. We have working with the customers for the past 25 years. Our oldest customer is a customer in Japan and we been working with them 25 years. Those customers were got by our Managing Director when he attended fairs in different countries. We been doing fairs for the past 25 years in the US, which is covering in Italy, in Verona the Fair is called Marmomacc and from last year we been exhibiting in Xiamen which is in China. So a lot of sales initially oriented from the trade fairs. Further, lot of information is available in the market for customers. So we head out to all these countries to visit every single customer whenever we can.

BaidikSarkar: So typical customer would you see an aggregator that is the reseller, would he be a EPC player who is a typical customer?

Sahil Arora: Mostly we have customers who are wholesalers in their respective countries who further sell to fabricators who sell to homeowners. It is completely a B-to-B business.



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- BaidikSarkar:** Okay. Can you split that value chain again? So you typically deal with the wholesaler?
- Sahil Arora:** Yes, a wholesaler who then sell to a fabricator or an installer, who works with the home owner directly.
- BaidikSarkar:** Okay. So as things stand today what kind of a revenue pipeline do you foresee at any given point in time? Is it a push model or is it pull model? How do inventory stocking happen? Is the stock inventory based on foreseeable demand or all ordering against firm demand? How does that model work?
- Sunil Arora:** Actually all our customers around the world they stock and sell. This product is like that actually because the end buyers they want to see the material and so basically we also stock and sell here. We likely we have ready blocks with us. As soon as we get the orders we process it and we export to our customers around the world.
- BaidikSarkar:** So what is the typical inventory holding period at your customer's end?
- Sunil Arora:** It depends on different colors because there is so many range of colors from around the world. Some colors could be even more and some colors could be less. It is difficult to say exactly.
- BaidikSarkar:** I mean ballpark, 45 days, 90 days, 60 days?
- Sahil Arora:** It is kind of based on things. So it depends. Right now whites, blacks and grays are moving very quickly so those can be anywhere between 25 days to 45 days. Colored material like gold, green, red they take slightly longer. It could be up to 90 days, even up to a year.
- BaidikSarkar:** Okay. So at your end when you are planning for say, any foreseeable financial period, how do you plan for your revenues? Is there a very intensive collaboration with each of your wholesaler around the world to understand what demand trend there are looking like? How do you foresee your revenues, for instance how does FY17 look like to you?
- Sahil Arora:** This is a very personalized business. So we are in touch with all our customers on a daily basis. Sales has been taken care of our Managing Director – Mr. Sunil Arora. We have a Director – Raghavendra who takes care of certain markets and I personally also take care of certain markets and on a daily basis we are on the phone or through email and nowadays even through WhatsApp and we are in daily touch with them. So they give us good ideas about what is moving in the market, what is pending and then they also give us ideas of what to buy and what to procure.
- BaidikSarkar:** Okay. So Q1FY15 seems in a very strong quarter and probably your realizations have grown perhaps in the actual volumes. So what is driving the growth in realizations and how sustainable is this?



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Sunil Arora: This is because of the corrective actions what we took in the last financial year. We added the warehouse here so that we have better space with us to have that productivity. Finally, we are able to get more production and we were able to achieve more sales.

BaidikSarkar: Okay. But then if bulk of your sales and leads are generated by participating the fairs out of India, I am just trying to understand how exactly the warehouse in India helps?

Sunil Arora: Like I have been explaining you, these days the market conditions are changing so fast. So customers are looking for absolutely stock which is ready with you because they are not willing to wait. Like earlier, when we started business 20 years back they would give us program orders for almost a year and we could process and deliver in 6 weeks, 8 weeks or 2 months. Right now things are changing around the world so fast, they want something to be shipped right away. So this warehouse is definitely helping us to increase our revenue by making immediate shipment immediate sales.

BaidikSarkar: Okay. So do you have wholesaler partners? Do we stock samples like most they do in most Tile shops or do we stock the entire pieces?

Sunil Arora: Unfortunately in our business being a natural product the shades vary from block to block, time to time in the quarry as well. So they have to really stock the actual material. That is the reason our inventories are always high. That is the reason we have a warehouse there in the factory to back up our customers around the world. Of course they do have samples, but what we do is we send samples for every container we ship and every container has different samples, it is not that that sample is matched with the previous container or the future shipments because ultimately we are working with Natural Stone unique material and that is our selling point. It is not like Ceramic Tiles which is just one sample and everybody can have a directly. So our basic selling point in the market to the consumer is that, you are buying something unique which nobody else has in the world. So that is the whole point.

Moderator: Thank you. The next question is from the line of Nishant Kumar who is an investor. Please go ahead

Nishant Kumar: We must commend you for doubling sales every 5 year without diluting the equity. Given that we are already the largest granite processor with 12 Gang Saws, how large could we grow in next 3-5 years, I mean in terms of Gang Saws and what could be our sales revenue in 5 years?

Sunil Arora: Actually you have seen our track record from last more than 25 years. We have always grown step by step. We have never ever jumped big ways because we like to grow in a way where we can sustain and do it every time except for the last financial year. Last financial year Sahil already explained the reasons of down because that was totally unexpected, what happened in the last financial year. But anyway, after taking all the corrective actions this year we are back on track. So same way in future also what we have been doing earlier we would like to grow



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step by step slowly every year after year and hopefully we will be doing the same way what we did in the past.

Nishant Kumar: If you are planning to install more Gang Saws or if you can predict in a step manner what are the 5-year projections?

Sunil Arora: This year we are more into consolidation because the last year was not a really great year for us. After that yes like I explained we have been growing every year. We will definitely do our best to be growing every year.

Sahil Arora: Okay. One of the things for future growth we are looking at is the Cut-to-Size market that we are already entering. We have already bought two CNC machines from Italy which are already under installation and should be commissioned by September of this year. So that will give us a lot of opportunity for growth. Like I was saying earlier, we expect it to grow to about 10% of total business in the next couple of year.

Nishant Kumar: 10% every year you mean?

Sahil Arora: No. Of our total sales 10% will be contributed by Cut-to-Size which is a value added of what we are doing already.

Nishant Kumar: And sir if I want to know about US market like how did it do for you last year?

Sunil Arora: US market is one of our biggest markets. So our total sales in US is almost like 20%. But still our share of Indian granite in US market compared to Brazilian is pretty low actually and yes of course we keep trying to increase our market there. Right now the main issue in US market is the Engineered Stone which is getting very popular in that market and also the Ceramic Tiles and the Porcelain Slabs. So the natural's market share is slightly on a hold actually. It is not growing that much as it used to grow earlier. It does not matter because we already moved in many of the markets around the world. We work with so many countries, so that is how we are able to grow.

Nishant Kumar: I wanted to understand in this, in US market the total demand is growing, are they losing in terms of percentage share of the market or the actual numbers?

Sahil Arora: Actually with the current trend what they are liking to buy is white material, grey material and black material. For black material India is the richest source of this shade. However white and grey Brazil is a much better source for Natural Stone material. However, this is where Engineered Stone has really taken advantage because their whites and grey shades are much superior. As with engineered product they can customize it to the customer's needs. However, what we expect in the future is countries like Australia where Engineered Stone has taken up



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90% of the total market has now come back down to 60. So it will be cyclical trend that we will see in the US in the next couple of years.

Moderator: Thank you. The next question is from the line of Samrat Jain from DBS. Please go ahead.

Samrat Jain: I would like to know what is our company's strength as compared to our competitors and in coming years what you see a threat for the top line and the bottom line?

Sunil Arora: As I have explained earlier also, the company's strength is that the Indian granite material what we have unique is not that everybody else having around the world. What material we have in India is not available in other countries. So somebody wants Indian material they have to come to India. Yes, our competition is within India with other companies. As far as our strengths are concerned we are in business from last 25 years. So we are able to build very good market base around the world in many countries and the customers we have with us is like they trust us 100%. We made Aro as a brand name for them also and they give us first preference to buy from us. Because of that the raw material we have, the quality what we maintain. So that is sort of relationship what we maintain with our customer that they like to deal with us on a regular basis.

Samrat Jain: And sir what about the threats, what you see threat as for top line and bottom line in coming years?

Sunil Arora: Basically our competition is not only within India, it is around the world also. But as far as our top line, bottom line is concerned except for the last year otherwise we have been able to maintain pretty similar way and hopefully same thing will do in the future also.

Samrat Jain: Last question sir, like you said your totally EOU unit do you also have sales rep, part time commission basis or fulltime around the world?

Sunil Arora: No, we do it personally. When we started to do business I used to personally look after the marketing for first 5 years and as we grew we had our Marketing Director joining us, Mr. Raghavendra. He takes care of the balance customers and after that as Sahil joined us, my son and then he is taking care of the balance customers. We in fact just 3 of us take care of entire marketing around the world.

Moderator: Thank you. The next question is from the line of Abhishek Kulkarni who is an investor. Please go ahead.

Abhishek Kulkarni: Sir my question was on the margins. Is the margins of this current quarter, what we have done, is it sustainable for the coming years?



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Sunil Arora: Definitely hopefully we should be able to maintain this, unless if something really unfortunately happens. Otherwise yes, we are quite hopeful to keep up the similar margins except for the third quarter, the main issue with the 3rd Quarter generally its winter time and the Christmas holidays and customers do not want shipments to be in December and January especially. So that is how 3rd quarter is generally always. Other than that hopefully we should be able to maintain it.

Abhishek Kulkarni: Okay. Like last Q3 was, I think we reported some slight loss. Even if we breakeven this year profitability should be somewhere around 15-16 crores for this year. Is that assumption correct?

Sunil Arora: As of now, the way the things are, hopefully it looks and definitely we should be able to do it.

Sahil Arora: Last year we are seeing it as an anomaly because there were lot of macroeconomic factors such as devaluation of Southern American currencies, there was war in Northern African countries which is a big part of our sales, there were sanctions in Russia ,so there are many factors that affected our sales last year and with this business as sales grows you see the profit also increasing.

Abhishek Kulkarni: What is the revenue growth target for FY16-17-18 kind of like, in percentage terms what you are targeting?

Sahil Arora: So what we are hoping is that we would be back to the level of previous years' backed around, maybe 250-255 before and this year also we hope to be around the same.

Moderator: Thank you. The next question from the line of Ravi Purohit from Securities Investment Management. Please go ahead.

Ravi Purohit: Just a follow up on one of the earlier caller's question. Basically to understand how this sales cycle work and how does the entire, let us say one leg of transaction if you could explain with an example. So let us say you get an order in a fair or let us say there is a established client of yours, what does he do? Does he place an order for let us say 100 pieces of boxes or whatever that measurement is?

Sahil Arora: Square meter.

Ravi Purohit: Yes, square meter. and then you ship it to them what if they sell only 50% or 60% of that? What happens to the rest? Does it come back or they take the inventory risks and who determines basically or how is it determines or how early or late in the cycle is it determined and how it is processed and sent? So if you could just throw some line on how exactly this business is done?



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Sunil Arora: This business is like, around the world all the customer's buyers what we have whether it is Australia, USA, Germany and they are wholesalers. They stock. They buy from us on a regular basis. They are not one-time customers. They buy from us month after, month after, month. May be few months they buy more and few months they will buy less or they plan it on the quarterly basis and some colors which are moving fast, they will give us more orders. Those colors which are not moving that fast they will give us less orders accordingly and therefore this business works all the time throughout the year, year after year.

Ravi Purohit: And what happens to the unsold inventories, as in what happens to unsold colors?

Sunil Arora: We do not give on consignment basis. It is a sale. It is a full sale and our most of the sale around the world either is on LCs or it is on the cash against documents except for very old customers where we give on DA terms but the terms are fixed. The payment has to be made by them on the due date.

Ravi Purohit: So there is no returning of any product?

Sunil Arora: No, it is not on consignment basis. It is 100% sale and on the due date they send the payment to us and we work with customers with so many years. We have good set of customers. They pay on time to us.

Moderator: Thank you sir. The next question is from the line of Sanjeev Hota from Sharekhan. Please go ahead.

Sanjeev Hota: Few questions, as you have mentioned in your opening remarks that last year we have faced some geopolitical issues across our geographies. So what is the current geo mix if you could provide us?

Sahil Arora: we have divided up by continents. Russia really has not improved. So what we are doing is we are looking for new markets. We have already entered markets like Slovakia, which seems to a promising new market for the future that's how we are countering for Russia. In Northern African countries, we already see some revivals. They are coming back for the sales. Previously, in the previous year almost a year and a half I would say they were only allowed to import essential items. Essential items basically was food grains and medicines, items like clothing or granite were not allowed for imports. So as we see the recovery in that momentum will pick up over there also. Last year Europe we saw a dip in Euro, however the stocks have been adjusted and the prices have stabilized again. In the US market right now the competition is severe with Brazilian colors. The Brazil dropped their prices by more than 40%-60%. That is one factor and the other factor is that we are competing against Engineered Stones. Like we mentioned before, India is the best source for black material. However white we have been lacking. In the last one year quarries in Rajasthan have opened up. There have been many quarries for Marble in Rajasthan before but not for granite. So in the last one year more than



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15 quarries, white colored granite has opened up in Rajasthan that will help us get some sales back in the US

Sanjeev Hota: Coming to this Engineered Stone how across the world its shifting is happening and how fast is happening but contrary to what your statement is Australia adoption from 90% has gone down to 60% what is the reason for that and how this shifting is happening from natural to Engineered Stone?

Sunil Arora: I think Engineered Stone has been there for last more than 5-10 years. From the past couple of years, it has become very popular in the international market especially for the kitchen top and counter tops. But finally it has been early in Australia the Engineered Stone went up to 90% of the market and then it has come down to 60%. The customers do realize that Natural Stone is natural. It is a unique material. It is not a fake one where as Engineered Stone is a fake material. It is a copied metal. It is not natural. So ultimately people do prefer natural material. So that is what came back in Australia and same way we see that in the other parts of the world ultimately this material will dry down and plus this Engineered Stone is more of, full of Resins, Epoxies, Quartz and Pigments which are not ecofriendly whereas our product is 100% ecofriendly. So that is what we are trying to explain to the market and to the customers and to the architects and interior designers that what products we have is 100% clean products as compared to Engineered Stone and we are very hopeful that we will get our market back.

Sanjeev Hota: Just you have mentioned in one of the earlier caller's question that this year you are going again back to 255 crores kind of revenues and back to 10-15 crores kind of profitability. Just when the first quarter is over, so what gives you the confidence of this kind of visibility?

Sunil Arora: It is because that like we explained earlier also that we semi-finished our warehouse work in our factor. So we have enough space to utilize the machine to reach maximum capacity and that is how we are able to produce more and make more revenue.

Sanjeev Hota: One of the latest issue that you have faced was raw material availability. So that is one?

Sunil Arora: Last year it is not one reason, but many reasons. But from the one we did counter all the reasons and we took all the corrective actions.

Sanjeev Hota: this year you are not going to face this year raw material issue atleast

Sunil Arora: Those issues are still there. Like we have explained earlier that new quarries have opened up in Rajasthan that is helping us and then few some few more quarries opened up in Tamil Nadu that is also helping us. So overall there is an improvement from the last year as far as raw material is concerned.



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- Sanjeev Hota:** I have two book keeping questions only. First is what is the current realization and capacity utilization?
- Sunil Arora:** Our realization we always work on the cubic meter of block. We always, for slabs we do it 30 square meters per cubic meters and tile we do 40 square meters per cubic meters and that too for 2 cm and 1 cm. So we make various thicknesses. We make various sizes and recovery and the relation depends accordingly.
- Sanjeev Hota:** And utilization?
- Sunil Arora:** Gang Saw and Tile Plant it is almost like 85%.
- Sanjeev Hota:** How you are managing the currency risk because you are like exporting to more than 50 countries, so how are you managing the currencies?
- Sunil Arora:** We export only in US Dollar or Euro. 80% is in US Dollar, 20% is Euro. But we always take packing credit in foreign currency and we return back in foreign currency.
- Panigrahi:** 2014 I think we have big Forex loss I think. So?
- Sunil Arora:** What loss what we have is actually as per new accounting standard, whatever is payable likely to the banks, we need to book loss on it, it is not the actual loss.
- Moderator:** Thank you. The next question is from the line of Ravi Purohit from Securities Investment Management. Please go ahead.
- Ravi Purohit:** Couple of other questions I had. One is I think you probably that there is no inventory risk. Basically your client buys and he has to basically sell them?
- Sunil Arora:** Yes.
- Ravi Purohit:** Secondly, how different is your business to some of your other peers in India? Basically someone like Divyashakti Granites or Pokarna, we are just comparing their numbers with your numbers, they seem to be earning higher margins. Is it because they probably have their own quarries, some of them have, some may not have. So how does this work in this sense?
- Sahil Arora:** First thing is that the only under listed are the 2 or 3 other companies that you have mentioned. So when it comes down to Pokarna they are around the same age, I think they are 26 years' old. However, at one point they ventured into quarries. So if you have seen their granite revenues on the past not been as high as ours and then they forayed into the Engineered Stone business which for many years it was very slow and only in the past couple of years it has really picked up. So that is where they are seeing maximum growth is in the Engineered Stone.



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Ravi Purohit: What I was trying to say is when I do a like-to-like comparison between granite companies we do not have any quarries. We buy granite from the open market?

Sahil Arora: Yes.

Ravi Purohit: What is the value add that we do, in the sense is owning a quarry a competitive advantage in its own or would you have preferred owning? What is your business sense if you could share?

Sahil Arora: Yes and no both. Yes, it is an advantage is because then you do not face any raw material shortages because you have your own source of raw material. But no at the same time because when you own a quarry you have to process in your factory everything that comes out of the quarry. In quarrying scenario only about 15% of the blocks that are processed or made are of first quality material. The rest are of second, third and fourth category material. To sell the first category material is very easy because you are a processing industry. It largely dependson the raw material. On average what advantage we have is we can go to many quarries and we can buy the first choice blocks. So in this case it is advantageous for us not to have a quarry. If we had a quarry we would have guaranteed source of raw material, may be a small price advantage but at the same time we have to deal with the second, third and fourth choice material which is very difficult to sell and you have to find a lot of alternative markets for that.

Ravi Purohit: How difficult or easy is it to get a quarry as in get license to basically mining?

Sahil Arora: It is more like a gamble. To get a quarry is not extremely difficult. It is what comes out of the quarry that actually is the difficult part. It is difficult to predict what yield the quarry would give you. There are lot of times where companies have forayed into quarries have completely failed, drowned crores of rupees. Also where they have invested a small amount they have done extremely well. It is a complete gamble again.

Ravi Purohit: A lot of luck involved in this.

Sunil Arora: In these 25 years we have seen many companies going down when they went into quarrying actually. So quarrying does not give 100% certain result. So that is why being a listed company we were more conservative and we always felt that this is not our way of working and quarrying is more into the hands of local people actually in the village area. For people from outside it is not really very lucrative.

Ravi Purohit: And right now our processing units are qualified as EOU. So you do not see domestic market in India or India being a very large market over a period of time you do not see, what are your thoughts on the I0ndian markets basically?

Sunil Arora: We do sell in domestic markets.It is about 8% or 92% of export only. The main reason we are not able to do much in domestic market is that we are already plenty of units which are at



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domestic rates where they sell at much lower prices or their quality is not as good as ours. So it is difficult for us to compete with them though our quality is much better, but our pricing is also higher actually. So people prefer to buy from those unit than from us.

Ravi Purohit: So Indian market you are saying is not really ready for this kind of pricing?

Sunil Arora: And the quality.

Ravi Purohit: Quality and pricing, okay.

Sunil Arora: Quality what we make is the countries like Germany, USA, Japan where the labor cost is very high. They want precision of the material. They want perfect material.

Sahil Arora: So one of the best examples is Tiles. In Germany when tiles are installed the entire Tile product granite comes down to about 1/4th of the entire cost of laying and material everything. Whereas in India when we look at it, if we used our granite, the granite would be a larger component than the labor component. In India they do not mind buying inferior product because labor is easily available and they can install it.

Ravi Purohit: So you mean to say on an installed basis in the developed market, labor is the bigger component than the product itself?

Sahil Arora: Yes.

Ravi Purohit: So that will be true for USA, Europe most of the places?

Sahil Arora: Yes, like USA, Japan, and Australia.

Ravi Purohit: Okay. So what kind of dollar pricing you would be getting for your granite as a company and at the consumer end what will it be costing the consumer?

Sunil Arora: So for example kitchen top in USA it is in per square foot because in USA it is per square foot, our selling price would be average of \$6-\$7 roughly or may be sometime average you can say between \$5-\$6 per square foot to our wholesalers. The wholesalers then they sell to the fabricators. Fabricators will fabricate and finally the consumer will be paying close to \$30. Which includes installation which includes fabricationwastage, wholesaler's margin, fabricator's margin, and installer's margin. The end user is almost paying \$30 for the Kitchen Top.

Ravi Purohit: That is like a huge difference, right?

Sunil Arora: Yes.



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- Ravi Purohit:** Any thoughts on actually getting a little frontend?
- Sunil Arora:** We explained. We already putting up CNC machine in our factory. Our next expansion plan is basically to go into Cut-to-Size. But for the projects not for this very small kitchen project but may be little larger project.
- Ravi Purohit:** Larger hotels, resorts these kinds of things?
- Sunil Arora:** Yes.
- Sahil Arora:** Already we have taken a project in the US. They are supplying for Marriott in Washington DC all the Vanity Tops. So all the bathrooms will have Indian granite material supplied by us already precut from India.
- Ravi Purohit:** This should yield you much better than what you are right now getting on a PSA basis?
- Sunil Arora:** Yes. Actually higher value addition, better margins.
- Sahil Arora:** But the volumes are not as great as in random flats. So that is why we are saying it will be a total of about 10% of our total business in a couple of years.
- Sunil Arora:** And of course there are people in between involved. So it is not that we do not get that kind of pricing what they get over there.
- Ravi Purohit:** But it was quite an incredible insight that the cost to the end consumer is \$30?
- Sunil Arora:** Finally, for the home owner who is making kitchen in the USA he ends up spending at least \$30 per sq.ft. the product what they sell from India between \$5-\$6.
- Ravi Purohit:** India is much different like 60%-70% will be your product cost?
- Ravi Purohit:** If we sell it for \$5 in India 10 would be the maximum.
- Moderator:** Thank you. The next question is from the line of Fenny Bhatia from Athena Investments. Please go ahead.
- Fenny Bhatia:** Sir I want to know what exactly would be the difference between the Natural Stone and the Engineered Stone in terms of the pricing? So how is the Natural Stone priced and how is the Engineered Stone priced?
- Sahil Arora:** In Natural Stone we have many varieties. So we sell more than 100 types of brands from around the world.



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- Fenny Bhatia:** Could you give us like a ballpark figure?
- Sahil Arora:** I will give you the low end and top end. So we have granites that we sell for 2 cm slabs at \$30 a square meter. and then we have material that we also sell at \$300 a square meter. Usually the ballpark figure that we are looking at the average is in the range of \$50-\$60 per square meter.
- Fenny Bhatia:** And Engineered?
- Sahil Arora:** Engineered Stone also has a wide variety. So it starts in the range of \$55 a square meter for 2 cm and it can go all the way up to \$400-\$500 a square meter. depending on the complexity of the engineering of the stone.
- Fenny Bhatia:** And sir I wanted to know how do you source your raw material? Do you have your own mine or you source if from somewhere else, how does it work?
- Sahil Arora:** We do not have any mines of our own. However, 60% of our total requirement we buy for India. We have 8 geologists located all over India. Seven stay near the quarries where we pick our blocks in a regular basis and we have geologists who goes to all the other places where the quantities are much less. We also import 40% of our total requirement from Brazil, Norway, Africa, Ukraine and Finland. For that we have our Director who goes to visit these quarries on a quarterly basis to procure material.
- Fenny Bhatia:** And sir I wanted to know how are the cranes used in the process of production of Natural Stones, like how does it work, what exactly the production process and how does crane fit into it?
- Sunil Arora:** It is 100% natural so we just cut and polish. We do not add any chemical or anything. All the colors what you see in granite they are all natural. It is only cutting and polishing. The only process is first you cut the material and then you grind it, you epoxy resin it and then you polish it.
- Moderator:** Thank you. The next question is from the line of Arun Baid from Religare Capital. Please go ahead.
- Arun Baid:** I was just looking at your balance sheet when the call was going on and in your balance sheet, this is a 2015 balance which is there in the BSE and there what I see is you gave 10 years' revenues of the company and EBITDA and stuff like that there ROCEs and ROEs always have always been very subdued. So is this the nature of the business which is going to be the case going in the future or do you think there is going to be a big change there?
- Sahil Arora:** This is the nature of the business. It is very capital intensive business.



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Arun Baid: So what I see sir, correct me if I am wrong, like it has been in the range of 10%-12% and that is the nature of the business?

Sunil Arora: ROEs we have been always, except the last year, otherwise it will be in the range of 10% only.

Arun Baid: And second thing is in your kind of business what is the sustainable EBITDA margins you look at. Forget about the odd year but generally what is the kind of EBITDA margins, is what someone can look at?

Sahil Arora: We try to look it in the range of 10%-15% because each Natural Stone is unique. There are different margins for certain products especially we have something unique then apply a larger margin. If it is something of a basic color, then the margins are much less.

Arun Baid: And I see that you have a huge amounts of debtors also on your book. What is the reason for it because you should be getting LCs and stuff like that?

Sunil Arora: Because of shipping, all our shipments are done by sea actually. So by the time the container reaches the Chennai port and that is loaded and by the time the ship reaches the customers destination port and all and clear the documents that itself is a 45 days' cycle actually and then of course by the time the documents are reaching from bank to bank and of course we have customers whom we are working with such a long time, we do give them some credit terms. So that is the reason in this business the working capital requirement is huge.

Arun Baid: And based on your current capacity what you have, what is the kind of turnover we can do, peak number as per you given things are normal?

Sunil Arora: With the current capacity we should be able to do at least 300 that is the bare minimum what we have to do and also we have projected actually because the current market condition we are at the level of this 250-255.

Arun Baid: And let us say what is the asset turn, is there a measure where we can put incur a CAPEX of 50 crores or 20 crores I can get XYZ kind of revenues, is there something of that ballpark number in this industry?

Sunil Arora: Not really. We could put up something on our website and get back to you on that.

Arun Baid: Sir, let us assume that this year you got 250-255 crores which you have mentioned about. Then what kind of CAPEX do we required to do. You must have thought something of that?

Sahil Arora: No, with the existing facility and the new warehouse that we have installed and the two CNC machines is what we are predicting 250-255. So no additional CAPEX will be done.



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- Sunil Arora:** So thistime we are not planning anything, except for this CNC machines which we already in the process of installing it and warehousewhich is almost ready.
- Arun Baid:** And what source of CAPEX from CNC machines, both those machines?
- Sahil Arora:** Roughly about €200,000, so 1.5 roughlyThat is just with the machinery plus foundation and shipping we can take an additional 15 lakhs, so 165.
- Moderator:** Thank you. The next question is from the line of Shiven Kapadia from Alpha Invesco. Please go ahead.
- Shiven Kapadia:** Sir I have a friend who ownsa cutter factory in Hosur. So he was telling me in the last two years there has been a lot of consolidation in which a lot of people from Rajasthan who had opened factories in Hosur are now shutting it down. So does not that give us an opportunity for some kind of acquisition by which we can expand our capacity?
- Sahil Arora:** Actually this is specifically for cutter factories that have been closing down. In our area for export-oriented companies like ours we can say 20-25 companies like ours in our area. These factories; however, we can say they are in the range of about 3000 cutter factories in our area. Those are totally oriented towards the domestic market. So with our kind of set up and our kind of clientele and the kind of volume that we do in our factory it would not make sense for us to acquire any of the cutter factories.
- Shiven Kapadia:** But in Gang Saw, are there any factories in Gang Saw?
- Sahil Arora:** Yes, about 20-25 type of factories in our area alone. So we have 12 Gang Saws in our area, so roughly should be about 300 Gang Saws.
- Shiven Kapadia:** So cutter is never even a thought process when it comes to any kind of acquisition. So we do not want to enter that field.
- Sahil Arora:** We do not want to enter the cutter factory. There the margins are very tight. The prices are very low. So it is not really.
- Shiven Kapadia:** And sir also in terms of the debtors I think we are at around 80-85 crores of debtors. So are there any bad debts in this or are there any to be considered as bad debts.
- Sunil Arora:** Yes, we did have some bad debts but not really, as you really seen in last 25 years of our working our bad debts are comparatively extremely low actually.
- Sunil Arora:** The kind of figuresdebtors do not include in bad debts. Bad debts have already been written-off in this quarter.



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Moderator: Thank you. The next question is from the line of Abhinav who is an Individual Investor. Please go ahead.

Abhinav: Sir is it true that we are only operating in high-end segment of granite exports?

Sunil Arora: That is kind of because we work with top countries in the world and best wholesalers around the world. So they are looking for that top-end kind of material.

Abhinav: So do we sell or have any plan to sell any projects in India as well?

Sunil Arora: Like I have been explaining we sell about 8% in domestic market but our costing and pricing does not match with the rest of the units in India. The buyers in India are looking for lower priced material because labor cost is low. There are not looking at the precision material what we process in our factory which is mostly required in Germany, Australia, Japan, USA.

Abhinav: My next question will be for Mr. Sundara Rajan. So past two years we were deducting MAT credit from expense. So how much MAT credit do we still have available?

S. Sundara Rajan: This financial year we will be able to avail MAT credit and from next financial year that is '17-18 we have to pay full tax.

Abhinav: My last question, we are putting two new CNC machines for production of Cut-to-Size granite. You have mentioned in the presentation we have better margins in the case of Cut-to-Size? How much extra margin are we talking about?

Sahil Arora: I will give you an example the project that we are doing right now for The Marriott. Container of Random Slabs we would have supplied to them to be processed for them in the US would have been in the range of \$15,000-\$17,000. However, since we have done Cut-to-Size ourselves, the container value is about \$25,000. Not all of it of course is margin, there is some costs that we have to bear on our side also and the wastages.

Abhinav: And the last question is that you mentioned ROEs will stay close to 10%, is there any specific reason it cannot go up like 15%-16%?

Sunil Arora: Given the competition is going on not only within India but around the world itself so it is difficult for us to even keep up with this also. So I think what they are doing is one of the best possible in the current market conditions.

Moderator: Thank you. The next question is from the line of Dhiral Shah from GEPL Capital. Please go ahead.

Dhiral Shah: What is the percentage of exports from Europe as well as US?



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- Sahil Arora:** US is 22% of total exports. Europe we break it up depending on the market, our total export to Europe is in the range of 55.
- Dhiral Shah:** Europe is the highest, 55%?
- Sahil Arora:** If it is individual country, US is the highest export for us.
- Sunil Arora:** So Europe will include, East Europe, Central Europe and the Western, all three.
- Dhiral Shah:** And what is from UK?
- Sahil Arora:** UK is about 30% of our total exports. In Europe our biggest markets are Poland, Poland is roughly about 17% of our total market, Germany is about 10%. These are the two largest markets in Europe.
- Dhiral Shah:** And sir any plan for debt reduction?
- Sunil Arora:** That is a constant effort, we always try to do that at least. But I think the levels that we are at I think we should maintain that. We already in fact met our debt with our working capital, we already reduced it from 100 to 80 right now.
- Dhiral Shah:** And sir in the presentation you have mentioned that your volume growth in Slab segment was 15%. But in Tiles was only 1%, why it so?
- Sahil Arora:** Tile market is actually a very slow market for growth right now. Demand for granite has decreased in most market. Our total exports of the Granite Tiles to the US is almost 0% of our total sales. All our Granite Tiles are either going to Europe or Japan and with this also there is lot of competition from porcelain which is at a much cheaper price point than Granite Tile.
- Dhiral Shah:** Okay. Do you mention that for FY17 you are expecting a growth of 10%, right? That is in terms of value growth or volume growth?
- Sahil Arora:** Basically what we were thinking is Cut-to-Size what we have right now in the process of setting up actually that should give us another 10% extra but that will take at least 2-3 years from the Cut-to-Size that is what we are trying to explain. The Cut-to-Size expansion what we are doing right now that will give us 10% extra business in next 2-3 years.
- Moderator:** Thank you. The next question is from the line of Samrat Jain from DBS. Please go ahead.
- Samrat Jain:** Sir like you said it is a capital intensive industry. Do you plan to raise any fresh equity since the numbers are good now?



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- Sunil Arora:** At present we do not have any plans.
- Moderator:** Thank you. The next question is from the line of Bharat Sikki who is an Individual Investor. Please go ahead.
- Bharat Sikki:** The first quarter of the current year has been **53:12 (Inaudible)** compared to last 3 quarters. So is there any change of model in quarter because macros were almost same barring there was 2% devaluation in rupees. So was there any change in the business module in the first quarter current year?
- Sahil Arora:** Actually if you see the actual macroeconomic not just in terms of rupees, there has been improvement in the housing industry in many markets. We are directly related to the housing industry. As housing industry improves in certain markets we will also improve. The corrective action that we took is that we put up a warehouse. So what that enables us to do is that we can properly display our entire inventory in this one place. So customers can have flying visits. They come in may be for a day or two from various markets. Visit our facilities and then they can go on to their next destination whether it is Italy or Brazil. So that really does help us boost our sales in the last quarter.
- Bharat Sikki:** In the current quarter the selling price is tremendously up compared to last 3-4 quarters and it is up by almost 20% selling price per unit. So there was some change in product line or something like that?
- Sunil Arora:** I do not think there is any. It is just that we had more sales because of the higher production and more sales in terms of the quality not only in terms of value.
- Bharat Sikki:** Now that the current devaluation and turmoil in the Euro and the Pound, will it affect our balance sheet in the current quarter or next quarter?
- Sunil Arora:** No, we do not sell in pound at all. We only sell in Euro and we sell in Dollars. In fact, our 80% sales are in Dollar. Euro is only 20% and we in fact import lot in Euro, so in fact that will benefit.
- Bharat Sikki:** And my last question is that since we already reached to 85% of our Gang Saws capacity...?
- Sunil Arora:** The last Q1 we already touched 85%.
- Bharat Sikki:** So it looks like that in a year or so we will be reaching to 100%. It takes a gestation period of may be 1 or 2 years. So do we have any plans to install more machines now because it will take one or two years by the time we will have reached to 100% or above?



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- Sunil Arora:** There is no concrete plan is there but of course as we have been explaining earlier also we have been growing in last so many years, same we will like to grow in the time to come. But as of date our first priority is to do the Cut-to-Size project and then after that of course yet nothing concrete but yes we do plan to grow on a regular basis.
- Bharat Sikki:** One last time as we said since we have a ripping Rs. (+10) bearing last year, so the dividend distribution is just Rs. 10 EPS, so it going to jacked up?
- Sunil Arora:** In our industry, like we have been explaining highly capital intensive industry and the working capital requirement is also huge and this business requires that kind of funds on a regular basis. We like to borrow minimum from the banks and then sustain from internal accruals.
- Moderator:** Thank you. The next question is from the line of Lalaram Singh from AnalyseWise Investment Advisors. Please go ahead.
- Lalaram Singh:** Three questions. First is that could you throw some light on the market size of granite, what are the key geographies and what is the growth of this industry historical and say expected if you could throw some light. Second question is with respect to our profitability, if I see your 20-year balance sheet income statement I could see that after 2007 your ROCE, ROE dropped from (+20%) to current 10%-12%. So you were earning about (+20%) ROE ROCE before 2007. So the drop is attributable to fall in margin. So would you help us explain what is the change in the dynamic of the industry which happened?
- Sahil Arora:** So to answer the first question is the size of the market, so for Indian process stone, the total market in 2014 was roughly about \$1100 million in exports.
- Lalaram Singh:** So \$1.1 billion?
- Sahil Arora:** Yes.
- Lalaram Singh:** So this is in the Indian process stone?
- Sahil Arora:** All forms of stones that includes Rough Block, Monuments, Slabs, Tiles, Cut-to-Size, projects, pavers, and everything, even Rough Blocks are included in this.
- Lalaram Singh:** And what is the key growth drivers for the industry? For the granite industry in which we are present?
- Sunil Arora:** The housing industry basically we depend up on housing industry. Our granite mostly goes for Kitchen Tops and Counter Tops or platformskitchens that is area we work with. So as housing industry improves we definitely have more business.



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Lalaram Singh: And is there a barrier to entry in this business because as you said that you can procure the raw material from the quarries and the value add which we do is cut and grind. So is there an entry to barrier in this business?

Sunil Arora: Not really because this business. That is why, to answer your second question that was the main problem and when our ROE was higher 20%-22% that time there were very few companies in this business and today in last 10 years' companies have been growing up like mushrooms and all over everywhere. So our competition is not only in selling, our competition is also in buying the blocks. So same companies when they go the quarry owners, good blocks they jack up the prices. So our raw material cost has gone up. So that has effect our profitability and of course the selling price.

Lalaram Singh: I appreciate that you are acknowledging that fact. So as an owner are you thinking of deploying this capital or may be lifting a business to a more profitable segment related to this business say Tiles or something?

Sunil Arora: We are already in the process of setting up this Cut-to-Size machines which we already received in the factory CNC machine, then the installation. That will definitely give us higher profit and slowly we will increase our business in that area.

Lalaram Singh: Can you please help me understand the meaning of Cut-to-Size?

Sunil Arora: Right now from the Gang Saw we make Random Slabs. Random Slab means whatever the size of the block is we cut them into Slabs and we export it to our buyers around the world they then sell it to the fabricator who will further process and supply to the end users. So what we are doing is we make Random Slabs in the Gang Saws, after that we cut to the requirement of the customer end user. Obviously we cannot do small projects. It will be like some hotels where there are 100 bathrooms 100 vanities have to be done. So we process completely in India and then we send it. So it is more value addition. So which will give us not only more business also higher profits.

Lalaram Singh: So the cut to size will be directly ready to be installed at the customers' location.

Sunil Arora: Absolutely that is the whole idea.

Lalaram Singh: Okay understand. If I ask you in terms of demand it is more from the residential segment or more from the commercial segment? I believe that Natural Stone is a more value-added expensive item. I would assume that it is more on a commercial segment. Is it correct or not?

Sunil Arora: Not really. The residential segment it is more for on the Kitchen and the Vanity Tops or for the step risers or window sills that's the area we do directly and the commercial side yes it can be



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larger volume for the floorings outside. We have done few projects where we have supplied for even the outside areas, pavement area.

Lalaram Singh: So do we foresee a significant market expansion in India considering that as we become a more developed with more per capita income, people are preferring more higher quality material. You think that may happen not in say near future but say in the long term?

Sunil Arora: Unfortunately, still the customers are very price conscious in India. Unless they are looking for our kind of quality, it is difficult. They spend lot on Italian marble but they do not spend on Indian granite. I do not know that mindset I cannot change. We try to explain to many customers but they prefer to buy Italian marble not Indian granite which is one of the best in the world and plus there are many small companies which process granite at very low price. We cannot compete with them.

Moderator: Thank you. The next question is from the line of Nikhil Uphadhyia from Securities Investment Management. Please go ahead.

Nikhil Uphadhyia: Just one question. As you mentioned that in the US the market is shifting towards Engineered Stone and all. So it a similar phenomenon you have seen in Europe or other markets, or is it restricted to few markets?

Sunil Arora: It has been to other market as well. Starting from Australia, Europe, USA. But USA it has picked up from last 1-1.5 years' lot more than earlier actually. Now it has taken almost like 40%-50% of the market share.

Nikhil Uphadhyia: And how would it be in Europe?

Sunil Arora: Europe is still little less. It is only in the range of about approximately 30%.

Nikhil Uphadhyia: Secondly sir you said 40% of our demand we generally import. So just wanted to understand the economics here because if you import it and basically do the value addition and then resell it. But a similar thing a Brazilian player staying in Brazil will also do. So is it value accretive to some extent?

Sunil Arora: We do not do the basic material. We do the high-end material where there is no labor required to process it, where it is difficult to process material that kind of material we bring it. We process and the we re-export it. So also Brazilian there are some of the quarry owners they prefer to export than to do it in their processing and selling in the local market so that they can maintain the prices.

Nikhil Uphadhyia: And this question is with regard to the pricing pressure which you mentioned last year which was happening because of South American, the Brazilian Real depreciation. If I look at this



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quarter result, in the presentation we sold 1.62 square meters. of Slabs which last year was 1.72 in the same quarter. While our sales is 55 crores as compared to 48 crores which means we have a better realization of per square meters. So is it because of currency or is it that the pricing environment has actually improved as compared to last year now?

Sahil Arora: So the square meter. number that we are given is for actual square meters. However, to get a better idea when we look at what the square meter thicknesses are. So we start with 10 mm, 2 cm, 3 cm, we go all the way to 5 cm and even 10 cm. So quarter-to-quarter this combination varies. Of course the higher the thickness is higher in the price of the material.

Nikhil Uphadhya: But on a like-to-like the pricing is still under pressure or have we seen a relenting of pricing in the general environment?

Sahil Arora: There is no longer demand for the prices to really go down as much, but however there is no possibility of prices going up in the near future. There is still a lot of pressure. On the flip side the prices of Rough Blocks are always going up.

Moderator: Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Chetan Phalke: May I know what is the land bank that we are sitting on and what is the area we have actually build up on and is there any surplus land parcel that we have available?

Sunil Arora: There is about 40 acres of land. But it is now completely utilized after the expansion of warehouse.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

Sahil Arora: We thank everyone for joining us. This has been our first experience doing a con-call and this has been the first and then we will be doing one every quarter for now on. So we hope you will join us again.

Sunil Arora: Thank you so much and we ensure you that we will do our best to take the company forward like we have been doing over the last 25 years. Same way we will make it in the future also. Thank you so much. Thanks for joining us.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Kanav Capital advisors that concludes this conference call. Thank you for joining us and you may now disconnect your lines.