



“ARO Granite Industries Limited Q4 FY2018 Results Conference Call”

May 08, 2018



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Moderator: Ladies and gentlemen, good day and welcome to ARO Granite Industries Q4 FY2018 Results Conference Call hosted by Kanav Capital. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gaurav Sud from Kanav Capital Advisors. Thank you, and over to you, Gaurav!

Gaurav Sud: Thanks. Welcome everyone and thanks for joining this Q4 FY2018 earnings call for ARO Granite Limited. The results and investor update has already been mailed to you and it is also available on the stock exchange website. In case anyone does not have a copy of the press release, please do write to us and we will be happy to send it over to you.

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

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

Sahil Arora: Thank you Gaurav. Good afternoon everyone. The management of ARO Granite Industries welcomes you to year-end investor concall. The FY2017-2018 has been the most difficult in the company’s history with sales decreasing by 15% and profit margin has been squeezed in this difficult environment. The Engineered Stone industry has taken over 75% market share in major markets like UK, US and Australia and with more and more Chinese companies entering the market every month, the price of Engineered Stone has taken a steep nose dive resulting in a bigger hit to the national stone industry.

The last quarter of the year was also heavily affected by the heavy snowfall and prolonged winters in parts of the world. This meant that many of our customers who are unable to complete jobs due to the harsh weather conditions and subsequently that resulted in the delay of their purchase cycle. The half decade long shortage of raw material in Tamil Nadu region has not helped our cost.



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More quarries were shutdown in the later part of the year 2017 due to the environmental clearance. Many traditional colours have been closed, as they are yet to obtain environmental clearance and permission to operate.

With new highway regulations and increase in cost, the cost of transportation of blocks is going up year-on-year. With these additional transportation costs, we are unable to bring the same volume of blocks on Rajasthan area as we were in the previous years. With many challenges in the home front, exporters have suffered in the GST era. The implementation of GST has resulted in huge money being blocked by GST and refunds still pending for over six months. Further with the delay in the e-wallet system by six months, there is no clear solution by six months there is no clear solution by the government for the issue pending on the refunds to exporters.

The PNB case has also affected the procedural aspect of foreign remittance by nationalized banks like our bankers, Bank of Baroda. It is now taking Bank of Baroda three to five days longer to clear our payments even after it has been received by the banks as all extra documentation has to be submitted to the back office through the branch for the final processing.

The cash flow crunch from these domestic issues has resulted in a lower purchase volume of blocks. Block purchase is a cash and carry business and we are unable to make purchases like earlier. Rough block purchase cannot be done as and when we require blocks but has to be done as and when blocks are available as it is a scarce resource. Faced by these challenges, we started our multiwire at beginning of October. Multiwire is a newer technology that uses diamond wires to cut blocks into slab. The process in cutting in a multiwire takes 8 to 10 hours as compared to three to four days in a traditional gang saw.

Multiwire is also better suited to cut fragile material and brittle materials like quartzites, which we are importing from Brazil. With this machine, we have focussed on cutting more and more high-end quartzites. In March we have seen over eight new quartzites, which have a selling, value almost triple that of Indian granites. During the year, we have received an executed many quartzites orders. The quartzites market is a very difficult market to enter where quality and timely delivery are as important as the price. Delays and mistakes can be disastrous.

During the year, we have completed over 40 jobs for 14 different customers. Before we open the concall to questions, the company would also like to announce that we have decided to set up a small plant in Rajasthan with a capacity of 153000 square meter production of slabs per annum. The capex of the plan will be Rs.55 Crores to Rs.60 Crores. This plant will help us to reduce the transportation cost of Rajasthan materials by more than half and make our prices and offering more competitive. The estimated plant readiness will be 12 to 18 months. We now like to open the concall up for questions.



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- Moderator:** Thank you very much. Ladies and gentleman we will now begin the question and answer session. The first question is from the line of Abhishek Jain from Almondz Global Securities Limited. Please go ahead.
- Abhishek Jain:** I had a question. You said that there has been structural shift are happening from granite to engineered stone and how you see this trend, how long this trend will continue first thing? Second thing on the margin side, we have seen from the higher double-digit margins we have come down to 7% this year. How you see margins at what level we are going to see the margins are going to be stabilized and where will the growth, when you are expecting a growth to come back?
- Sunil Kumar Arora:** This is Sunil Arora here. This quartzites had started about five years ago that time it used to be like 20% quartzites and 80% granite in international market, but now it has become almost like other way round 20% granite, 80% quartz. So this trend has really grown in last five years, but we feel that this is the peak now and the trend has to change in the coming years. So with that our granite business will increase or improve.
- Abhishek Jain:** But if it does not change, so what will be the plan B action and how we are moving towards quartz business, what exactly we are doing?
- Sunil Kumar Arora:** As far as quartz business is concerned, we looked into it long back and we decided not to get into this business. The reason is it will be very difficult for us to compete with China and their cost of production will be much lower than what we can produce in India. Because the quartz is the material, which is the manmade-engineered stone, it requires only quartz, resins and pigment and the technology is also from Chinese companies, so hence it is for Indian companies to get into this business will be very difficult.
- Abhishek Jain:** One more question, how you see FY2019 going ahead do you believe the environment will continue to remain challenges?
- Sunil Kumar Arora:** We do not feel the challenges still on, but we are pretty show that this is the peak of quartz and as per the information we have from the market. It will decline and the natural stone will come back.
- Abhishek Jain:** What is the impact of GST, how the business dynamics has changed Sir?
- Sunil Kumar Arora:** GST like just now Sahil had explained earlier, it is affecting our cash flow because we are able to get refund from the government for last six months though we got for July, August and September, so I can tell our CFO will give more detail on this.
- Sundara Rajan:** In fact we got refund up to October, for the past six months, the refund is due and because of that our investment in GST has gone by nearly Rs.9 Crores. As on March 31, 2018 the total GST



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receivable from the government is nearly Rs.10.5 Crores, it is very substantial amount, which is affecting our working capital in fact and moreover they have changed the jurisdiction also now, central excise to local sales tax who are not to convenient or conversant with the procedure, so there is a delaying our refund process.

Abhishek Jain: One more thing Sir, what are the average realization for this quarter and this year and vis-à-vis last year if you can share that number?

Sundara Rajan: Last year so far the tiles are concerned the realization is Rs.2281 per square meter and this year it is at Rs.2260.

Abhishek Jain: On the export side?

Sundara Rajan: Export only I am talking about. This realization for the export only I am talking and so far slabs are concerned it is 4300, it is 3960 for this current year.

Abhishek Jain: What was the trend in the Q4 Sir if you can share that number?

Sundara Rajan: Q4 is showing better result so far realization concerned compared to the average, in Q4 realization for tiles for Rs.2500 and Rs.3900.

Abhishek Jain: Thank you Sir. If I have any question I will return.

Moderator: Thank you. The next question is from the line of Nakul M from India Capital. Please go ahead.

Nakul M: Sir you have talked about this raw material prices, see the quarry problem was there last year also the number of quarries, which are shutting down and there was problem of acquiring of the blocks was there last year also, so what has changed this year first of all I wanted to understand that plus the new plant you are putting up in Rajasthan the initial cost, you are saying that would be around close to 60 Crores, so even if we assume that you get a loan at the rate of 10% or 11% the kind of numbers you have, so you will be saving around Rs.6 Crores, Rs.7 Crores in getting a raw material from Rajasthan, Udaipur to bang, is not that a great idea just to pay a little bit extra for the transport, you yourself are saying that there is threat from China, there is threat from some of the other places and the demand is not so great, so what is the thinking to put a new plant in Rajasthan?

Sahil Arora: Firstly coming to the raw material availability, so in the previous years, the raw material was closed because of particular illegal activities done by certain quarry owners. Last year in particular 2017 what has happened is there is a new law that requires any mining to require an environmental clearance to operate the quarries. So many quarries are yet to receive environmental clearances. Since the granite comes under the minor mineral, it is the purview of the states, so the states jurisdiction to get these environmental clearances cleared, so in Tamil



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Nadu state still those process are pending and many quarries have been shutdown further due to this environmental clearance and one of the reasons why we want to set up the plant in Jaipur like you mentioned is there is a huge saving in the transport cost. What we are expecting is anywhere between 50 and 60 containers of sales from Rajasthan every month and the savings in transport cost is going to be about Rs.90 lakhs every month, so we are going to be saving about Rs.10 Crores in a year. If we do not pass on these savings to our customers then the Rajasthan area will also be shutdown for us as we will be uncompetitive in pricing to our customers. So it is very important for us to setup a plant over there, reduce transport cost, reduce the price of the material and continue selling those materials, so one of the reasons are not able to bring the same volume of block from Rajasthan as we did in the previous years is because of the pricing front.

Nakul M: Sahil what is the trend in the European markets you are looking after the international market as per the annual report, so what is the trend right now there?

Sunil Kumar Arora: In Europe still granite is or natural stone is preferred over Quartz, though Quartz is picking up momentum, it is about 30% in some markets, only UK is about 75% Quartz, 75% granite.

Nakul M: Thanks.

Moderator: Thank you. The next question is from the line of Kunal Thanvi from Equitymaster. Please go ahead.

Kunal Thanvi: Thanks for the opportunity. Sir in the first part of the call you talked about Quartz be peaking out at 80% right now; however, the basic reason why Quartz took over natural stone was the quality of the stone over the natural stone, so what are the three, four things that you know make you believe that the trend is set to reverse now?

Sahil Arora: I think there is a misconception that the quality of Quartz is better than natural stone. If you say Quartz is not stain resistant, it is not heat resistant, it cannot be used outdoors, the reason Quartz is more popular than granite right now is because of the fashion. The fashion right now requires white, gray and black material, so gray material in India there is only one single colour that comes from Andhra, which is gray that is popular in the market, for black material we have the best black – solid black materials on the south, which is coming from Karnataka, Andhra and Tamil Nadu, so there we are okay. The real issue we have is in the white materials. The white materials in India are very limited. From the south from Andhra, Karnataka, Tamil Nadu, Telangana we have only three or four white colours which are popular, balance all are from Rajasthan, so this is where Quartz became popular by getting more and more white colours and if you also see the most popular shades of Quartz there the ones that are imitating marbles, so these are very highly price marbles such as Safari in Kolkata they are very expensive material, very difficult to maintain, so compared to that Quartz is much cheaper to maintain, but if you compare granite and Quartz, granite is definitely much easier to maintain than Quartz.



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- Sunil Kumar Arora:** Also I would like to add in this actually is that Quartz looks like a plastic. It is basically a fake material whereas the granite is real and natural, but the beauty natural stone cannot have with the Quartz, yes Quartz became popular in last five years and like Sahil explained it is because of the trend and the fashion. The fashion always changes up to five, five years, so it is a time that when the fashion will change and natural stone will come.
- Sahil Arora:** Just to give you an idea the composition of a typical Quartz slab coming out of China or even India 85% of the slab is Quartz and 15% of it is polyester resin, so polyester resin is definitely plastic, the higher the polyester resin contained in a slab definitely it will lower the price and move the plastic, the look.
- Sunil Kumar Arora:** Also like to add on this, there are also equal problems in the Quartz at present in many countries because it is very difficult to dispose of this material like plastic bottles, whereas natural granite when you dispose it off it is much easier, it is a biodegradable product whereas Quartz slabs it is same problem like plastic bottles.
- Kunal Thanvi:** If that is the case then why people like IKEA, are very attracted to Quartz both in US and now both in Indian markets as well. Across the globe if you see IKEA has tie up with one or the other Quartz player because they feel that is the material for the future right?
- Sunil Kumar Arora:** No not for the future. It is just the present trend that this present trend is for this like Sahil explained for white, gray and black, which trend is almost people are getting tired of it and it is changing now.
- Kunal Thanvi:** I will get back in the queue. Thanks.
- Moderator:** Thank you. The next question is from the line of Digvijay Kumar, an Individual Investor. Please go ahead.
- Digvijay Kumar:** Thanks for the opportunity Sir. My question is what is overall debt within working capital and term loans in the books?
- Sahil Arora:** Yes sure that our CFO can explain that.
- Sundara Rajan:** Terms loans as on date it comes around Rs.10 Crores and working capital comes around Rs.82 Crores.
- Digvijay Kumar:** Rs.82 Crores?
- Sundara Rajan:** Yes.
- Digvijay Kumar:** Any change in trend of colour of black, white and gray?



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- Sahil Arora:** As of now the trend is still continuing, but we do see some revival in colours like blue and green, but still majority of the market is demanding white, gray and black.
- Digvijay Kumar:** Thank you Sir, I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Abhishek Jain from Almondz Global Securities Limited. Please go ahead.
- Abhishek Jain:** Thanks for adding me again. I have two questions Sir. What kind of demand we are seeing it from the housing sector right now at this point of time in terms of are we seeing any pick up in traction in demand mainly from the housing players like government schemes and various government scheme?
- Sahil Arora:** We are EOU, an export oriented unit, so 95% of our market is export and only 5% of our market.
- Abhishek Jain:** Domestic side Sir?
- Sahil Arora:** Domestically what we sell mostly is either are extremely high end products, which are quartzite it is an important materials, or our export rejection, so we have no connection directly with the government schemes, our plant is designed for export.
- Abhishek Jain:** Okay one more thing, Sir, you were talking about this Multiwire basics. How is it going to change the margin? How exactly and what kind of logics it got saving we are going to see or what kind of savings we are going to see in the change in this technology?
- Sahil Arora:** The Multiwire has annual capacity of about 150000 square meter per annum, so with this Multiwire that we have already installed here in the Hosur plant, we are cutting mostly Quartzite, so Quartzite cannot be cut properly in traditional gang saws. Traditional gang saws are more of a hammering motion, a little bit more violent. So it is more suited for regular material from India whereas Quartzite are extremely expensive, so even with a higher cutting cost of a Multiwire, if we are able to recover the materials, we are able to get a higher price for this materials. So that is why we have installed a Multiwire. It is not to cut preexisting machinery or to enhance capacity is to add a new product, which is Quartzite.
- Abhishek Jain:** One more thing, it is only a small question. You are saying that there has been a change in demand or may be change in preference in fashion and you are expecting the granite will be getting into demand in action, when you are seeing this demand will pick up and for any reason it does not recover, what is our plan of action?
- Sahil Arora:** We already see the trend from customers around the world at least. We work with more than 50 countries all over the world and we are regularly in touch with them. They are basically all wholesalers. They stock and sell, so from them we get the feedback that the trend is changing



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from or the trend for the granite is increasing from this year onwards and they feel that granite will come back very soon.

Abhishek Jain: Do you see any change in impact from this new Trump policy or something like this or like the new any change in US regulation will impact us?

Sahil Arora: No not really. That does not really affect our industry. Now you would see that US is doing pretty well. It is not that the economy is affecting us in any way. It is just the trend of the Quartz has made our business low in the last three to four years.

Abhishek Jain: And that 55 Crores the capex which you are planning, how you are going to use it?

Sahil Arora: The CFO can explain that.

Sundara Rajan: In fact that range is 55 Crores to 60 Crores, 40% will be internal accrual and 60% will be term loan from that.

Abhishek Jain: Thank you.

Moderator: Thank you. The next question is from the line of Digvijay Kumar, an individual investor. Please go ahead.

Digvijay Kumar: Thanks for the questions again. Sir, you are going for the expansion for Rs.60 Crores. Sir, who are your main bankers and how much debt will you take for the Rajasthan expansion of Rs.60 Crores?

Sahil Arora: My bank is Bank of Baroda.

Digvijay Kumar: I am saying that who are all your main bankers and how much debt will you take for the Rajasthan expansion of Rs.60 Crores?

Sahil Arora: 60% of that debt is coming from Bank of Baroda, 40% we are doing through internal accruals.

Sundara Rajan: We have only one bank that is Bank of Baroda as of now from last 25 years and from them only we already have existing term loans and our working capital.

Sahil Arora: Sir, 36 Crores will come from Bank of Baroda and the balance will come from internal accruals?

Digvijay Kumar: Okay, are you able to sell in the new countries?

Sahil Arora: Yes, in the last year because of our participation in the Xiamen Stone Fare in China, we have entered into a few new countries.



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Digvijay Kumar: Name the countries and what percentage of the orders you have won from these new countries in the last year?

Sahil Arora: The new countries that we have entered into is Thailand, Vietnam, Korea, Mangolia. These are some of the new countries. As such we have no expectations from their side, but they are becoming quite substantial markets for us where the profit margins are a little bit better than the traditional US, UK, Australia markets.

Digvijay Kumar: Sir what are the challenges? What are your business prospect for the coming year? Will we be able to grow your revenue for the next year?

Sahil Arora: One of our biggest challenges that we have right now is the cash flow. The cash flow will only be served once the government introduces the e-wallet and solves the problem of refunds for granite industry. So that is one side where we do not have the cash flow to buy blocks as and when blocks are available, and generate sales from that. That is one side. The other side as we have been mentioning earlier, demand for Quartz around the world, so based on these two factors we will have to see.

Sunil Kumar Arora: That is the reason we are participating in different exhibitions like Sahil had explained. We have participated in Xiamen fair and we also participated last year and this year in Moscow fair so we are new and new markets and increase our business.

Digvijay Kumar: Thank you Sir. I will get back in the queue. Thank you.

Moderator: Thank you. We have a followup question from the line of Digvijay Kumar, an individual investor. Please go ahead.

Digvijay Kumar: Thanks for the opportunity again. Sir, how has been your transportation cost as a percentage of overall cost?

Sahil Arora: It depends from area to area. So, speaking specifically of Rajasthan, our transportation cost from Rajasthan is about 40% of our raw material cost from Rajasthan as of now.

Digvijay Kumar: Sir, this plant will be saving 10 Crores, right?

Sahil Arora: Sorry I did not understand.

Digvijay Kumar: After this plant in Rajasthan we will be saving 18 Crores per annum?

Sahil Arora: We have the details with us. We will give it to you. About 9 Crores, 8.64 Crores will be the saving in transport cost alone.



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- Digvijay Kumar:** Sir, it will take 18 to 20 months to execute the plant in Rajasthan?
- Sahil Arora:** That is right.
- Digvijay Kumar:** Thank you Sir.
- Moderator:** Thank you. As there are no further questions, I now hand over the conference over to the management.
- Sunil Kumar Arora:** Let me just discuss that financial year has been the toughest year for ARO Granite but as a positive note, during tough times, it makes you come out with new ideas and new innovative ideas to work in a better way and in a more efficient way, so once the market comes back, we are very hopeful that we will do much better than what we have been doing earlier.
- Sahil Arora:** We take this opportunity to thank everyone for being with us today. Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Kanav Capital Advisors that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.