



“ARO Granite Industries Limited  
Q2 FY2020 Results Conference Call”

November 07, 2019



**ANALYST:**

**MR. GAURAV SUD - KANAV CAPITAL**

**MANAGEMENT:**

**MR. MADANGOPAL – CHIEF FINANCIAL OFFICER - ARO  
GRANITE INDUSTRIES LIMITED  
MR. SABYASACHI PANIGRAHI – COMPANY SECRETARY  
-ARO GRANITE INDUSTRIES LIMITED**



*ARO Granite Industries Limited*  
*November 07, 2019*

**Moderator:** Ladies and gentlemen, good day and welcome to ARO Granite Industries Q2 FY2020 Results Conference Call hosted by Kanav Capital Advisors. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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 now hand the conference over to Mr. Gaurav Sud from Kanav Capital Advisors. Thank you and over to you Sir!

**Gaurav Sud:** Thanks Mallika. Welcome everyone and thanks for joining this Q2 FY2020 earnings call for ARO Granite Industries Limited. The results and investor updates have been mailed to you and it is also available on the stock exchanges. 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.

Just a quick update, there has been a small emergency in the promotor’s family, so the MD, Mr. Sunil Arora will not be here on the call today. His son, Sahil has been admitted in the hospital and so they are busy there. To take us through the results of this quarter and answer your questions, we have today with us, Mr. Madangopal, CFO and Mr. Sabyasachi Panigrahi, Legal Head and Company Secretary. We will be starting the call with a brief overview of the company’s performance and then we will follow up with a Q&A session.

In case we are not able to answer any questions that are out there, we will then aim to schedule a call sometime later this month when the promoter family is available. I would like to remind you all that everything said on this call that reflects any outlook for the future, which can be construed as a forward-looking statement must be viewed in conjunction with uncertainties and risks that they face. These uncertainties and risks are included but not limited to what 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. Panigrahi for opening comments. Over to you Mr. Panigrahi!

**Sabyasachi Panigrahi:** Thank you Gaurav. Good afternoon everybody. The management of ARO Granite Industries Limited welcomes you to H1 FY2020 investor concall. Thank you for taking out time for attending this call. Our sales during H1 FY2020 increased by 6.87% to Rs.91.58 Crores in H1 FY2020 from Rs.85.69 Crores in H1 FY2019. Our profit after tax was up by 19.81% to 2.48 Crores in H1 FY2020 from 2.07 Crores in H1 FY2019. While our sales were up marginally, we were disappointed by our overall growth. Our performance was significantly impacted due to shortage of raw blocks. We could not achieve our full production capacity due to huge shortage of raw blocks which in turn resulted in lower production and sales. The raw material sourcing problem remains a big concern for granite processor in the country. Quarry’s are being continuously closed down due to lack of environmental clearance in Tamil Nadu and Karnataka. Enforcement is getting stricter and quarry’s are being shut due to environmental clearance or



*ARO Granite Industries Limited*  
*November 07, 2019*

surpassing sanctioned limit of quarrying. Our plant in Jaipur started production in August 2019. This plant will help us in cutting cost of transportation and processing for blocks sourced from Rajasthan. Also it makes us competitive against the processors located in Rajasthan. We expect this plant will become profitable in the first year of production. Overall Indian granite exporter are facing stiff competition from engineered stones. Quartz, ceramic tile and porcelain slab are getting popular in taking market share of natural granite stone. This in turn is impacting the realization of the granite slabs across the globe. At times for us to maintain relationship and keep the customer satisfied, we have to sell our product at cost, which in turn impacts our overall margins.

Due to rising popularity of engineered stone, we have decided to setup plant for Quartz in our existing facility in Hosur. Our existing infrastructure of polishing, finishing, packing shall be shared between granites and quartz. For the first phase, Quartz plant capacity shall be 1,80,000 square meter per annum. We have started erection work from August 2019 and most of the machinery is dispatched to the plant. The plant is expected to be operational by Q2 FY2021.

We look forward to growing our sales with the contribution from the new plant in Jaipur. We also aim to improve our margins after commissioning of the Jaipur plant. We are further taking initiatives to stay relevant and profitable in the industry giving the changing demand profile and competitive intensity. Thank you very much.

**Moderator:** Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Siddharth Agarwal from Prudent Value Partners. Please go ahead.

**Siddharth Agarwal:** Sir, first of all, could you speak a little bit more about our profitability? We have seen our margins which have decreased significantly. So, if you can please throw some colour, what are the reasons for the same and how do we expect the margins in the coming quarters for the next year?

**Madangopal:** As far as the Q2 is concerned, we have done a sale of 43.3 Crores as compared to Q2 of last year 41.9 Crores. There is an increase of 3.24%. Whereas, we are able to retain the EBITDA margin at the same level, 10.48%, PAT decreased and the decrease is mainly because this quarter, this year, we added a new plant in Jaipur and we have depreciation. Jaipur is the new unit, we have the depreciation expenses as well as the additional fixed expenses due to Jaipur. Though Jaipur unit is expected to break even, the additional fixed expenses in this quarter is the reason why the margins are low. Going forward, when the volume increases, then margin is expected to improve further.

**Siddharth Agarwal:** Sir, you mentioned about the issue with the raw material sourcing, we have been having some problems in Tamil Nadu and Karnataka, so how are we actually managing the raw material position now?



*ARO Granite Industries Limited*  
*November 07, 2019*

- Madangopal:** The raw material issue continues to be there. We are facing shortage of raw blocks, but with Jaipur, the new unit opening up, availability is expected to improve further and that is the way we are looking at improving the situation of raw material. We are also doing stocking of raw material, we are buying whatever raw material that is of good quality is available, we are buying and stocking it.
- Siddharth Agarwal:** So what is the current raw material status at our Hosur plant? I believe we used to have a lot of inventory, so is it getting cleared now when we have the raw material shortage?
- Madangopal:** Yes, yes. Now we are able to manage whatever orders that we have on hand, we are able to manage with the available raw materials blocks that we are already sourcing and we are now focusing on high value customers and high end materials, so the raw material availability is also matched to that extent.
- Siddharth Agarwal:** Sir we were also importing blocks from outside India, so are we still doing that and what percentage now these imported blocks would constitute for our raw materials?
- Madangopal:** We are still continuing to import blocks because of the local non-availability of the expected quality and it constitutes about 20% to 30% of our total raw block requirements from imports.
- Siddharth Agarwal:** I think about two quarters back USA increased tariff on Chinese imports by 25%, there has been a lot of changes between the USA and China tariff regime, so what is the current status and is it impacting our business either way?
- Madangopal:** Actually tariff is on the Quartz, which is on the artificial engineered stone, we are doing granites so there is no impact for us.
- Siddharth Agarwal:** So there was no tariff increase on the granite stones, it was only on the Quartz that had a tariff.
- Madangopal:** Yes, and we have other markets also apart from US. 50% of our market is in Europe, so that is how we are able to manage any issues we got from that.
- Siddharth Agarwal:** My last question Sir, so what is the situation on the GST refunds, so are we seeing some improvement there in terms of GST refunds and its consequent impact on our working capital?
- Madangopal:** Yes, to start with the beginning of the quarter, we had 12.5 Crores of GST outstanding, so we summoned our task force and we submitted all the required documents and we had good followup with the department, now we are able to realize 10 Crores out of the 12.5 Crores. Now one quarter is still in process and we are expected to realize it in this month.
- Siddharth Agarwal:** So you mean to say that now the process is actually working in the sense that our actual receiving, the refund timeframe has now shrunk as what was stated by the Finance Minister?



*ARO Granite Industries Limited*  
*November 07, 2019*

- Madangopal:** Absolutely and there is also a new scheme by the government, online refund process. Now it is yet to be streamlined, but once it is in place, we will be able to get the GST refund immediately after the closure of the month.
- Siddharth Agarwal:** I have a few more questions, but I will fall back in the queue and come back and join later. Thank you.
- Moderator:** Thank you. The next question is from the line of Shankar Dutt, an individual investor. Please go ahead.
- Shankar Dutt:** Sir my first question is how is the ramp-up in Jaipur? Do we expect full utilization of the plant next year?
- Madangopal:** Jaipur, this was just started. It is three months now, August, September and October just got over. It is expected to do well depending upon the availability of raw materials.
- Shankar Dutt:** We have shifted our plant to Jaipur because there were plenty of quarry's, so are we getting enough raw materials from there?
- Madangopal:** That is in process, we are on the look out.
- Shankar Dutt:** Sir, you started construction of engineered stone plant, so can you share the progress?
- Madangopal:** The Quartz unit, work is in progress and work is expected to be completed by Q2 next year. By July, August, September, it is expected to be operational.
- Shankar Dutt:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Siddharth Agarwal from Prudent Value Partners. Please go ahead.
- Siddharth Agarwal:** Sir, could you please tell me what is our net debt position as of now and post commissioning of our Jaipur plant, we would need more working capital etc., so do we have that appropriate limits in place?
- Sabyasachi Panigrahi:** Net debt position as of today is approximately 40 Crores, the term loan which we took for the Jaipur plant and one more was there earlier, so in total it is around 40 Crores. As far as working capital is concerned, for the time being, we are continuing with the existing working capital structure, but for Jaipur we have not taken any additional working capital. We will see the progress and accordingly we will decide for FY2020-FY2021.
- Siddharth Agarwal:** What is our Capex plan for the Quartz plant and how much would it add to our debt?



*ARO Granite Industries Limited*  
*November 07, 2019*

- Madangopal:** In Quartz, we expect to incur a Capex of totally approximately 35 Crores, 20 Crores for plant and machinery and 12 Crores for building and civil related work and 3 Crores for electrical, maintenance everything. So, totally 35 Crores is the expected Capex on Quartz.
- Siddharth Agarwal:** Sir, how much debt do we need to take for this plant?
- Madangopal:** This is managed out of internal accruals, we are not taking any fresh loan for this.
- Sabyasachi Panigrahi:** I will add to this, the entire machine is funded by suppliers credit for a period of 720 days and the remaining amount will be from our internal accruals.
- Siddharth Agarwal:** So what is the amount of machines you said, around 20 Crores, so this is funded by suppliers?
- Sabyasachi Panigrahi:** Yes.
- Siddharth Agarwal:** After 720 days, is it we need to repay at one go or is it again in certain period?
- Sabyasachi Panigrahi:** It is in four installments. It will be calculated from the date of BL. All payment will be in staggered payments.
- Siddharth Agarwal:** In terms of our exports market, is there any new development in terms of either new geography or certain market where we are seeing positive signs, if you can share any colour, some signs for our growth in the coming years?
- Madangopal:** Currently we are focusing on the current customers that we have. No new markets as of now, but there is a scope for new products like Quartz when it comes up, then there is a scope for getting new customers as well as entering into new markets.
- Siddharth Agarwal:** Sir if I understand correctly from our last con-call, so the sales channel, you said it is the same customers who deal both in granite and Quartz, so once our plant is ready, so it will not be too difficult for us to find a market for our product, is my understand correct Sir?
- Madangopal:** Absolutely. Quartz has now already taken some of the granite volumes, so when we go into Quartz, it means regaining our markets that we already lost to Quartz. So that will be additional volume only.
- Siddharth Agarwal:** Sir, my question was is it to the same existing customers that we push Quartz through or is it a different channel that we need to develop to sell our Quartz products?
- Madangopal:** Different channel and existing customers also who are currently buying Quartz, will buy Quartz from us and we will also target new markets and new customers.



*ARO Granite Industries Limited*  
*November 07, 2019*

**Siddharth Agarwal:** Okay Sir, thank you very much.

**Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Gaurav Sud for closing comments.

**Gaurav Sud:** Thanks everyone for participating in the call. Since we did not have the top management available, so if there are any specific queries which we are unable to answer, please write to us and as we have highlighted earlier, we will be holding this call every six months. Thank you.

**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.