



“ARO Granite Industries Limited Q4 FY 2020 Earnings
Conference Call”

July 01, 2020



MANAGEMENT: **MR. SUNIL ARORA – MANAGING DIRECTOR, ARO
GRANITE INDUSTRIES LIMITED
MR. SAHIL ARORA – WHOLE TIME DIRECTOR, ARO
GRANITE INDUSTRIES LIMITED
MR. MADAN GOPAL – CHIEF FINANCIAL OFFICER,
ARO GRANITE INDUSTRIES LIMITED**

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



*ARO Granite Industries Limited
July 01, 2020*

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY20 Earnings Conference call of ARO Granite Industries Limited 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 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, Mr. Sud.

Gaurav Sud: Thanks Margaret. Welcome everyone and thanks for joining this Q4 FY20 earnings conference call for ARO Granite Limited. Hope all of you are doing well in this COVID 19 Pandemic and are staying safe. The results and investor update has been mailed to you and it is also available on the Stock Exchange. In case anyone does not have a copy of the press release, please do write to us, we will be happy to send it over to you. To take us through the results of this quarter and answer your questions, we have today with us Mr. Sunil Arora – Managing Director, Mr. Sahil Arora – Whole time Director, Mr. Madan Gopal - CFO and Mr. Sabyasachi Panigrahi - Company Secretary and Legal Help. We will be starting the call with a brief overview of the company's performance and then we will follow a talk with the question and answer session. I would like to remind you all that everything said on this call that reflects any outlook for the future which can be constitute as a forward-looking statement must be viewed in conjunction with uncertainties and risks that they fare. These uncertainties and risks are included but not limited to what we have mentioned in the prospectus file with SEBI and subsequent annual reports which you will find on our website. With that said, I now turnover the call to Mr. Sahil for opening comments, over to you Sahil.

Sahil Arora: Thank you Gaurav. Management of ARO Granite Industries Limited welcomes you to year end Investor Con call. Thank you for taking out the time for attending this call. I hope you and your families are all safe and managing well during this stressful phase of COVID 19 Pandemic. These are unprecedented times and never has a global economy been impacted in such a big way. The world's GDP is definitely going to contract this year, the extent on this contraction will only be known once the post-COVID world becomes the new normal.

Financial year 2020 has been both good and bad for the company. Though we were able to increase our sales volume, our net profitability declined, while our sales increased by 3% from Rs. 172 crore in financial year 2019 to Rs. 177 crore in financial year 2020, our sales volume also increased by 6.2% to 4.98 lakh per meter in the financial year 2020. Our profit after tax declined by 62% from Rs. 9.71 crore in 2019 to Rs. 3.6 crore in 2020.

Our profitability was impacted mainly due to the currency fluctuation we saw during the year. Raw material sourcing problem remains a big concern for the granite processors in the country. Closing down of quarries have forced granite processors to procure from distant sources which has increased the cost of transportation and impacted their competitiveness in the international



*ARO Granite Industries Limited
July 01, 2020*

market. In order to cut transportation cost, we have decided to put a plant in Jaipur closer to granite quarries which chase that are in demand.

Our plant in Jaipur was operationalized in August 2019 and for the financial year 2020 the Jaipur plant has contributed 8% of our turnover. If not for the Jaipur unit, our sales would have seen a decline as the granite sales from the North of India are increasingly becoming more popular especially in the North American markets. With new and smaller factories being set up in Rajasthan, we would have surely loss the entire Rajasthan States' sales this year. Saving on transportation cost alone for the Rajasthan plant is about 15% which is a huge margin. Given the rising popularity of engineered stone, we had decided to set up a quartz plant in our existing facility in Hosur with the capacity of 1, 80, 000 square meter per annum. We have planned to use our existing infrastructure of polishing, finishing and packing for both granite and quartz. We have completed the civil work and other machinery erection and we were expected to commission the plant by March 2020; however the technicians were unable to travel back to India after the Chinese New Year in February to complete the setup process due to international travel ban caused by the COVID 2019 Pandemic.

Given that it was a Brownfield expansion, we have invested in machinery only and till date they are paid for the 40% of the machinery cost, the remaining payment to the supplier is spread over 720. COVID-19 has materially impacted our business with our main plant being shut down from March 2020 and reopened in May 2020, the raw material availability as most were impacted and many has still not opened, this is mainly due to the lack of labor to operate the quarries. The quarries that have opened in South India operating at very low capacity due to labor shortage. In the North however quarries ramped up faster and we expect that majority of them to operate at 75% or more by October of 2020.

Currently we have good orders in hand but due to raw material shortage we are not able to fully execute the orders. We have built long lasting relationships over the last 30 years with most of our clients and it is these relationships which will hold us in good footsteps. Over the years we have built a good brand name and goodwill to deliver the right quality with honesty and trust. As our customers are not able to travel to India to do the selections, they trust our QC reports to be accurate and fair which will help us maintain our customers in over 42 countries.

One positive development over the year is the sorting out of GST refunds. We are getting regular refunds unlike previous years, where working capital was stuck in pending GST refunds. We are pleased to inform you that we are now current with all GST refunds which has helped in the smooth cash flow. COVID-19 has mainly impacted all businesses and economies as a whole, however for the period of the lockdown the company has decided not to deduct any salaries and has paid its salaries and wages in full and on time. This has helped us maintain majority of our workforce and we do not foresee any workforce shortage in the future. Our customers too have been severely hit by COVID-19 related slowdown, but they are showing good signs of recovery and are hungry for more materials. For us the impact of COVID has been with the shortage of



ARO Granite Industries Limited
July 01, 2020

raw materials due to the slow working of quarries, the market slowdown in many parts of the world. For the quarries about to ramp up productions in immediate future we are hopeful that we were focused on managing our costs and continued to take initiatives to stay relevant and profitable in the industry.

We do hope that you, your families and colleagues are keeping safe and we hope we are able to pass through this difficult time with our health intact. We would now like to open up the line for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Siddharth Agarwal from Prudent Value Partners. Please go ahead.

Siddharth Agarwal: Sir we had quite a decent increase in sales this year but our profits have declined substantially, you did mention some of the reasons in your opening remark but can you elaborate a bit more on this because the decline has been substantial in spite of the topline increase this year?

Sahil Arora: Thanks a lot for your question. In 2012, the Tamil Nadu government had decided to shut down almost 200 quarries in our vicinity and those were roughly about 40% of our total production. Since then going forward, the government of India had also introduced more stricter norms on environmental clearance, so any quarry that has to operate needs to have a certain environmental clearance that are issued to them, which come under the state purview. So the state of Tamil Nadu, Karnataka and Andhra Pradesh is not very clear on these procedures yet, so that led to a further large number of quarries closing down. Tamil Nadu alone accounted for around 1100 quarries, so putting together these closures of 2012 up to 2018, we are seeing more than 1500 quarries closed down in Tamil Nadu alone. So, that has really impacted our business in the South of India. To compensate this in the last couple of years we have been bringing in blocks from the North of India, from Rajasthan specifically and crushing them down 2000 kms to Hosur as producing those colors. As we saw that there was a rampant increase in the requirement of additional facilities in the North because we were well aware that the transportation cost as a component of raw material alone is about 25% and 15% as the cost of the finished good. So, that is why we felt that we must have presence in the North and we setup a plant in the North specifically for producing North Indian colors. The issue with the raw materials in the South has not improved in the last year, so that is why you are not going to see a substantial increase in sales, even though we setup new facilities.

Siddharth Agarwal: Okay and sir we also saw some volume increase this year, so what were the reasons for that, so you are seeing some traction in your end markets and how does it look like for this year, the demand side?

Sahil Arora: So, we actually have four types of products that we do sell, we sell granite tiles, we sell granite slabs from the South of India, we do granite slabs from the North of India and we also do a substantial amount of imported granite slabs. So, in the last year we saw that our imported granite



*ARO Granite Industries Limited
July 01, 2020*

sales were not as high as the sales from the Indian colors and that is why you see a volume increase. The imported colors which are mostly from Brazil, Norway, Finland are usually higher price materials for the same square footage or square meterage and that is why you see higher square meter sales, the sales have not increased as such.

Siddharth Agarwal: Sir my question is do we expect a further volume increase this year or how is the demand side looking like today? What are the expectations for FY2022?

Sahil Arora: Jaipur unit is only operational for 7 months, which of course we have some feeding issues in the beginning and as we ramped up production to current levels it has taken a time and that is accounted for 8% of our sales. We definitely see that next year there will be an increase in the Jaipur unit there as raw material is available and there is a lot of traction for the colors over there and the best part is that there is lot of new discoveries on new shades that are also coming out of Rajasthan which are becoming popular for the markets maybe.

Siddharth Agarwal: And sir USA imposed the tariffs on the Chinese quartz and granite, so what is the impact of that on the Indian players, are we seeing some positive impact of that?

Sahil Arora: So, there has been no tariff on Indian granite so there has been no impact, quartz had a tariff for part of the year which is set at 84%, however those tariffs have now been reversed and the final tariffs are now going to be 3.19%. So, once our quartz plant is operational that will be a good opportunity for us as there is a good demand for artificial snow of quartz in the year.

Siddharth Agarwal: So, on the raw material side also, is the situation improving or is it still giving us a challenge overall?

Sahil Arora: Overall, right now because of the pandemic it is become more of an issue because there is not much labor to operate the quarry, the quarry was to start by July itself so that is for the immediate future till the labor comes back. In the long run it is all up to the government and their decision on how they take this forward, there are plenty of quarries that are waiting to restart operations, it is not like we do not have deposits in India, they are just really untapped and because of the current policies of the government especially in the South of India, they are not being tapped at all, it takes sometime up to 2-3 years for a quarry once purchased to become operational because there is a lot of bureaucracy and paper work.

Moderator: Thank you. The next question is from the line of Amit Saini an Individual Investor, please go ahead.

Amit Saini: Sir you ventured into the new product lines like cut to size and quartzite, so how are these products doing sir?



*ARO Granite Industries Limited
July 01, 2020*

Sahil Arora: Cut to size is still a very good growing segment for us, we are around 80% capacity at our cut to size plant and even today we have more than two months waiting time in the cut to size plant. So, that is going very well for us, however we now found that as part of the slab or tile plant sales as material for that is either produced from slab or taken from tiles. So, that is a very good segment that we did enter where we are seeing good amount of profitability and a good amount of orders and for the current future where things are going to be difficult for people to travel and trust is going to play a higher role, the team that we have developed will help us maintain or even in fact grow this segment for us. The quartzite part of it is difficult to say right now because we do have to travel a lot to set the blocks of quartzite so in the current future we are not going to be able to travel internationally to check quartzite blocks, so we have only selected a few select colors and quarries that we can work with, where we can buy quartzite blocks. There is a grow in demand for quartzite especially in the Asian markets and once we are able to travel again this segment will continue to grow but in the short term we will have to see how much we can work with on over phonographs and over virtual conversations.

Amit Saini: Sir since you do not show any number in your presentation, so can you tell me how much of revenue it contributes to, from cut to size? Sir can you share the contribution of cut to size in total revenue?

Sahil Arora: It is about 5-7% of our total turnover, this cut to size business but more than that along with the cut to size we sell our other products like our modular tiles and slabs, it is like an added advantage given to our customers plus it is more of value addition, so it is not only the extra turnover what we get but it helps us in the sales of other products also.

Amit Saini: And sir since China is facing high tariff in USA, do you think China will dump its excess production in other countries and it will impact realization in other countries also?

Sahil Arora: So, the tariff is for quartz, we are export oriented company, last year our total exports is about 94% of our sales, so it would only affect 6% of our sales and majority of which or 6% right now is natural stone. So, I do not see any effect of China in India, plus with the current addition of the India-China relation and the current anti-China movement I do not think China will affect India at all in this front.

Amit Saini: Okay sir also like in other countries, like in Europe where China is not placing any tariffs, so do you think there will be a fall in realization?

Sahil Arora: So, right now we are not even, we do not sell quartz at the moment, our factory is still under commission and once we commissioned only can we comment about that but our major focus will first be to North American markets and our existing customers in 42 countries. With our existing customers itself we think that we can utilize our entire capacity that we have right now. Not only in North America but also in Europe, in Australia and parts of Asia.



*ARO Granite Industries Limited
July 01, 2020*

- Amit Saini:** Okay and sir since we are facing problems in export are you planning to increase sales in domestic market?
- Sahil Arora:** Yes, we keep on always focus on our domestic market sales but you have to understand that our production, quality and costing is meant for export markets, so it is very difficult for us to really compete with the domestic units because their pricing and quality is much inferior to us, there is a market who are looking for quality products in India and that is the market we continue to be there.
- Moderator:** Thank you. The next question is from the line of Siddharth Agarwal from Prudent Value Partners, please go ahead.
- Siddharth Agarwal:** Sir because our business is totally dependent on exports and imports, so on the logistic side how impacted is this and is it normalizing now, the shipments?
- Sahil Arora:** Yes the shipping have been normalized right from the beginning because for our Hosur plant we use Chennai port which has been operational even during the lockdown and still it is operational and for our Jaipur plant we use Mundra ports, so as of now even after the lockdown from the last few months we are not facing any shipment problem.
- Siddharth Agarwal:** For imports as well, so when we import our raw material that also?
- Sahil Arora:** Same way, even for our import of raw material, import of even consumables and spare parts, we had able to receive them on time.
- Siddharth Agarwal:** And so what is the status on our receivables, are we receiving our payments on time or are there any delays?
- Sahil Arora:** Overall yes, we are quite okay with the receivables because our customer relationship is for a very long time and during these difficult times, they are supporting us, customers are supporting us and we are getting our receivables on time.
- Siddharth Agarwal:** And say our Rajasthan plant even though operated through only a part of the year, it has done by 12 in terms of a contribution to sales so in the coming year how much do you think that it can contribute to sales and profits going forward, the Rajasthan plant?
- Sahil Arora:** See roughly we are looking at around 40% because there we have only one Multi-wire right now, so with one Multi-wire the production what we are seeing right now will be around 20%, we can achieve on the turnover but in future if we get further expansion as and market grows we will be able to do much better.



*ARO Granite Industries Limited
July 01, 2020*

Siddharth Agarwal: Okay but as you mentioned that the raw material availability around Rajasthan is improving and some of the colors in that area are also finding acceptance among the end users. So, is there any plan to expand the capacity further here or do we wait for a while?

Sahil Arora: We will wait a while because right now conditions are, as you know very well how the conditions are around the world and within the country but yes, that is the fact that the Rajasthan material is very well accepted in the international market and there are many new colors which are coming up there. It has good demand, in fact there is lot more scope for us to grow in Rajasthan as compared to South plant.

Siddharth Agarwal: Sir and at profitability, I think our peak profitability was roughly around Rs. 21 crore, Rs. 22 crore in 2014. So when do you think it will be possible for us to reach those levels back again, what needs to happen for us to hit those levels back again?

Sahil Arora: So like I mentioned a little bit earlier, the 2014 numbers were the highest because that is when the least number of quarries had closed out. For us to reach those numbers again we need the quarries to open up again, its without raw material which is the back bone of our industry which constitutes about 48% of our total cost, we cannot do much without that. Currently what is happening is, because of the shortage of raw material the competition so much is not in sales, it is in purchase of raw material. If you buy the blocks right shade, right pattern the sales are happening automatically. So as to get back to the sales numbers, we say that for us to get back to that profitability our sales has to gagged up to that because of the fixed cost and along with that, so that to happen we need the quarries to be opened.

Siddharth Agarwal: But a quartz plant call can also help to build some of this cap, right. So what are our expectations on a full utilization, how much to a sales or profit contribution can come from the quartz side?

Sahil Arora: So currently our total capacity is for matching stones is about 1 million square meter per annum whereas the quartz plant will be around 1, 80, 000 square meter. I do not expect that we should have initially more than 60% to 70% utilization of the quartz plant. So we can see that it will also be around the same figure as Jaipur, I do not think to be more than, more or less like Jaipur 20%.

Moderator: Thank you. The next question is from the line of Satish Chaudhary from Samasya Capitals, please go ahead.

Satish Chaudhary: Sir I wanted to touch up on, if you could just briefly explain on given the COVID situation how has the industry because there has been a big shake up that must have taken place for the business world, so have there been any shut downs with regards to producers of granite or quartz and had competitive intensity in shape, in any ways which may be advantageous for company like us in times to come?



*ARO Granite Industries Limited
July 01, 2020*

Sahil Arora: Granite, most granite producers that are comparable to us are all export companies, I am not too aware about domestic companies if anyone has actually closed down or not but all the export companies, you know we are exporting to multiple countries around the world so our sales do depend on how those markets are faring. And as of now most those countries are doing much better than, the economies are doing much better than what the Indian economies are doing, there is a focus on construction so there is good scope for everyone in the business and as such none of the quartz or the granite companies have closed down. Our major challenge is again raw material, raw material is the one area that, you know it is taking time for them to ramp our productions as we get the migrant labors back to work.

Satish Chaudhary: And this raw material is specific to the granite sector, right the raw material issue?

Sahil Arora: The raw material issue is not need be specific to granite, it is specific to all most in the granite and quartz. The quartz supply of course is a simpler raw material to have, they are able to ramp up faster but initially we need lot of migrant labor to run the quarries. It is not easy to run without labors these kinds of quarries.

Moderator: Thank you. The next question is from the line of Amit Saini an individual investor, please go ahead.

Amit Saini: Sir you said you are facing raw material shortage in South India, so can you say a detail how you are procuring raw material, how much it is from domestic market and how much it is from imports?

Sahil Arora: So speaking specifically of the South, we buy raw material from Tamil Nadu, Karnataka and Andhra and Telangana. This constitutes up to 70% of our total requirement, 30% is imported. For the tile plant I would say like 90% of our requirement is domestic and 10% is imported. In Rajasthan side, 100% of our raw material there is local to Rajasthan.

Amit Saini: Okay, are you still buying raw material from Rajasthan and then transporting it back to Hosur plant?

Sahil Arora: No, we are not bringing anything from Rajasthan. The transportation cost would not work out, it constitutes almost like 25% of the landed cost from Rajasthan to bring it to Hosur is about 25% of the landed cost. So to save that cost we cannot bring anything to the site.

Amit Saini: And Sir in your opening remark you said that this year we incurred loss due to Forex fluctuation. So these are book entry or we really incur losses because I think we are fully hedged.

Sahil Arora: These are no show entry, they are actually no-show entry.



*ARO Granite Industries Limited
July 01, 2020*

Madan Gopal: Hi, I am Madan Gopal, actually we have our working capital in FOREX, and we are a 100% EOU and we get remittances in **FOREX** only. And as per AS11 (accounting standard 11), we are required to re-state our exposure with the Forex rate prevailing as on 31/03/2020. So we re-state our exposure and that is only a notional entry, it is not an actual, does not have any actual financial impact on the business. So, it will not have an effect.

Amit Saini: So, these are mainly no impact?

Madan Gopal: Yes.

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

Bharath Pitti: My question is with start of Jaipur plant are we making additional sales or there is sacrifice of the sales at the Hosur?

Sahil Arora: All the sales that we were making of North Indian colors from Hosur have shifted to Jaipur and this is just to save the transportation cost, plus like I said in my opening remarks if we had not done that then the smaller factories that are coming up in Rajasthan would have completely wiped us out of the sales in the South.

Bharath Pitti: Okay, my second question is that have we set any targets for next quarter, in terms of monthly sales, last year our monthly sales was about a little less than Rs. 15 crore per month, so how much sales do we see in July, August and September, this year?

Sahil Arora: Actually, things are changing everyday with the situation in COVID, just to give you an example, last week we were coming freely from Bangalore to Tamil Nadu, today we are not even freely allowed to travel between Bangalore and Tamil Nadu, so we cannot really say anything as this current pandemic situation, how that is going to affect anything in the future.

Sunil Arora: What I can say is that comparatively we are much better off, of course the sales will be down, I will not say that the sales will be like it used to be pre-COVID but overall we see that we will not be very much down from our regular sales because we are working with more than 50 countries around the world, so there are many countries which are still buying material from us, there is still demand for our materials and overall our sales will be fine and will be quite similar to the previous year.

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



*ARO Granite Industries Limited
July 01, 2020*

Gaurav Sud:

Thanks everyone for joining the call today, hope we have been able to answer your queries, if you have any further questions, please mail out to us and we will revert back to you and hope all of you do well and stay safe in this pandemic. Thank you.

Moderator:

Thank you. On behalf of Kanav Capital Advisors that concludes this conference. Thank you for joining us and you may now disconnect your lines.