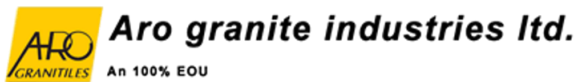


**ARO Granite Industries Limited**  
**Q4 Earnings Conference Call**  
**June 16, 2023**



**MANAGEMENT: MR. SUNIL ARORA – MANAGING DIRECTOR**

**MR. MADANGOPAL – CFO**

**MR. SABYASACHI PANIGRAHI – LEGAL (HEAD) AND  
COMPANY SECRETARY**

# ARO Granite Industries Limited

## Q4 Earnings Conference Call

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q4 FY23 Earnings Conference Call of ARO Granite Industries Limited. 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 touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Mehra from TIL Advisors. Thank you, and over to you, sir.

**Abhishek Mehra:** Thank you. Welcome, everyone and thank you for joining this Q4 FY23 Earnings Conference Call of ARO Granite Industries Limited. The results and investor updates have been emailed to you and are also available on the stock exchanges. In case anyone does not have a copy of the same, please do write to us and we'll 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. Madangopal – CFO; and Mr. Sabyasachi Panigrahi – Legal (Head) and Company Secretary.

Before we begin, I would like to inform you that Mr. Sahil Arora, Whole-Time Director, will not be joining us today as he is not keeping well. We'll start the call with a brief overview of the company's performance and then we'll proceed with the Q&A session.

With that said, I now hand over the call to Mr. Madangopal. Over to you, sir.

**Mahadevan Madangopal:** Good evening, everyone, and welcome to the Q4 and FY23 earnings conference call of ARO Granite Industries Limited. After a full year, we find ourselves here again presenting our annual performance to you. While this last year has seen us adjust our communication practices due to several factors, I announce that we are reverting to our usual half yearly earnings call schedule going forward.

I trust most of you have had the opportunity to review the presentation that we recently shared with the stock exchanges. For those joining us for the first time, the presentation provides a comprehensive understanding of our business operations, evolution and the broader operating environment. For those familiar with our journey, it should have offered an insight into our operational and financial progress over the past 12 months.

Before I open the floor for questions, allow me a few minutes to walk you through the key performance highlights of the year gone by. Starting with the financial performance for FY'23, our revenue from operations stood at Rs. 163.90 crores compared to Rs. 224.74 crores in FY'22. EBITDA came in at Rs. 19.60 crores versus Rs. 31.44 crores in FY'22. And our EBITDA margin stood at 11.96% against 13.91% in FY'22. The PAT came in at minus Rs. 5.78 crores as against Rs. 8.91 crores in FY'22.

Now let me throw some color on these figures and the market dynamics that contributed to this performance. Financial year '23 posed a unique set of challenges. The year began with soaring container prices impacting our customers significantly and resulting in a decrease in sales of budget and low-cost products. Additionally, our quartz plant faced a temporary shutdown due to unexpected duty imposed on quartz imports from India by the United States of America. The situation in Europe added to the complexity as the energy crisis caused by the conflict in Ukraine led to increased fuel and electricity costs, which, in turn, negatively affected the real estate market and our customer sales.

We did witness a drop in the freight rates during the year. However, the sudden drop rates caused inventory management challenges with customers holding higher-valued stock struggling with sales. As a 100% export-oriented unit, we did face adverse impact from the slowdown in U.S. and European markets. I'm pleased to share that we have successfully navigated the high freight rate scenario, adjusted in duty changes on quartz, maintained our foothold in the European market despite the challenges.

With all these obstacles now in the rearview mirror and with anticipated easing of interest rates, we are hopeful of a gradual recovery and improvement in our financial performance. We remain optimistic that the operating environment will continue to improve, enabling us to seize the emerging opportunities and strengthen our position in the market. Thank you for your continued support and faith in ARO Granite Industries Limited. We are now ready to take on any questions that you may have. Thank you.

**Moderator:** We will now begin the question and answer session. Our first question comes from the line of Prateek Chaudhary with Saamarthya Capital. Please go ahead.

**Prateek Chaudhary:** So, in your presentation, I see that the company was doing very well up till 2014. And I guess, majorly, the problems have started after the shutdown of the quarries in the Madurai region. And we haven't really grown after that. So, could you give us some color on what is the current situation on the ban? And is there any visibility as to when the ban might get lifted, if at all, in the near future?

**Sunil Arora:** Yes, you're right that our problem started with the shutdown of the quarries in Madurai. But to overcome that, we first of all, started a plant in Jaipur, which was commenced successfully and we had a good amount of exports from there. After that, we ventured into this quartz

plant, which also started successfully. But unfortunately, last 2 years have been very challenging for, not only us, every company, globally also. Like just our CFO, Mr. Madan just explained the challenges we had. But if you see now, those challenges, one by one have come over. And we have come through these challenges in a great way, actually. So, the time to come now, our growth will be obvious, I believe.

**Prateek Chaudhary:** Is there any specific on the ban? And if anything is happening in that direction such that the ban might get lifted?

**Mahadevan Madangopal:** Rough block area.

**Sunil Arora:** Rough block area. Unfortunately, the situation is same in Madurai area. The quarries are still closed, though our association and all the companies are representing regularly, but there seems to be no effect on that actually. Yes, that's the reason we are suffering most likely. But like I said, we already move forward actually. So, that's why we've set up the Jaipur plant and the quartz plant.

**Prateek Chaudhary:** Sir, second question is on the quantum of inventories that we have. I understand that we had changed our business model some time back, where we shifted from selling made-to-order to keeping inventory for customers to see and take up the material from there. But this has resulted in almost Rs. 200 crores worth of inventory and it has also stretched our working capital very significantly. So, any plans on curbing such a scale of inventory or reducing it to some acceptable levels going down the line?

**Sunil Arora:** Of course, definitely. The main reason for increase in inventory is also because of the starting of Jaipur plant and of the quartz plant. But other than that, yes, the inventories will start coming down for the time to come.

**Prateek Chaudhary:** Any target we have?

**Mahadevan Madangopal:** Target? Over a period of 1 or 2 years.

**Sunil Arora:** Yes, of course, the action is already immediately, so we are in the process of reducing the inventory.

**Prateek Chaudhary:** Anything specific there because this has also affected our working capital and you had to take a lot of loans for funding this inventory.

**Sunil Arora:** No. Though, we have started this new project, we have not taken any extra working capital, except Rs. 5 crores from HDFC. In last 7 years, the extra working capital, what we've taken is only Rs. 5 crores from HDFC. There is no extra working capital taken by the company.

**Prateek Chaudhary:** Now coming to the Jaipur facility, you had invested close to Rs. 55 crores to Rs. 60 crores in setting up a 1.5 lakh square meter capacity. So, wanted to understand that if we were operating at less than 40% capacity utilizations in Hosur plant, why was there a need to set up a new facility instead of ramping up production at the existing site?

**Sunil Arora:** That's very simple to explain. See, we were getting blocks from Rajasthan to South. The cost of transportation was extremely high. So, that's the reason we set up a plant there to process the material, which comes in Rajasthan. So, to save the freight cost. So, that has really benefited us and we are able to compete in the market and give better rates to our customer.

I hope you understand. Natural stone, every area has a different material. It is not that what we have in South will be available in North or what is available in North is available in other countries, every country, every place has different type of natural stone. So, we are basically a processing company. We only cut and polish. So, colors are natural. So, unfortunately, like we said, South, most of the quarries have closed, especially in Tamil Nadu, and the industry in Tamil Nadu is suffering. The reason for that is that we had to shift to Rajasthan, where new quarries have come up in last 5 years and material is available. And even more and more blocks are coming up. In fact, in Rajasthan, we did our expansion a year before last and doubled our capacity. But of course, with the issues we had of the shipping line, the slowdown because of the war that affected our business. But now things have come back to normal and business will improve.

**Prateek Chaudhary:** And sir, in 2018, we clocked a turnover of almost Rs. 200 crores, which solely came from our granite, quartz business. And now this Jaipur facility can do another Rs. 80 crores. So, now that the operating environment has become much better, by when do we expect to cross Rs. 250 crores mark ex of your quartz business?

**Sunil Arora:** FY '23 still seems to be difficult year because right now, though most of the issues have been sorted out, right now the main issue what we are facing is the interest cost. As you know, interest cost in Europe, U.S.A., Australia is almost like 7%. It used to be less than 1%. With such high interest rate, obviously, the home loans are not coming up and the new construction is not happening. Looks like that interest rate will come down. As soon as the interest rates come down, our business will again pick up. But we can already feel, already see that the business has started improving from the fourth quarter of the last financial year. And this quarter also things seem to be much better. So, coming back to your question, yes, we are very hopeful in the next financial year, we should be able to cross Rs. 250 crores.

**Prateek Chaudhary:** This is ex of your quartz business?

**Sunil Arora:** Altogether, I'm saying, right now. Because like I explained in the Hosur plant, we are still suffering with the availability of blocks.

**Prateek Chaudhary:** And sir, on the quartz side, there was this antidumping duty which had adversely affected our U.S. business. And now that, if my understanding is correct, that has been reversed. So, what sort of demand are we witnessing? Or is that being affected by the slowdown we are having in the U.S.?

**Sunil Arora:** No, there is a small effect but quartz we have enough orders. Quartz plant, from last 3 months, we're running in full capacity. Almost 85% to 90% capacity, we are running it. We have complete orders for our quartz plant.

**Prateek Chaudhary:** But your presentation showed that Q4 utilization was around 35%.

**Mahadevan Madangopal:** Absolutely, yes, overall and, quartz was closed from September '22 to January '23, January only, first week, the duty was reversed.

**Sunil Arora:** What I'm saying is the current.

**Mahadevan Madangopal:** So, the presentation is till March '23, so 2 months utilization that is coming there.

**Prateek Chaudhary:** And what sort of turnover we can achieve from this facility on full utilization yearly?

**Sunil Arora:** This, like I said, '23 still seems to be difficult because of the interest rates. But we still, we're very hopeful of crossing the Rs. 200 crores.

**Prateek Chaudhary:** No, only from quartz. Only from quartz, I am asking.

**Sunil Arora:** Only from quartz around INR 50 crores.

**Mahadevan Madangopal:** Per year.

**Sunil Arora:** For the whole year, yes.

**Prateek Chaudhary:** And you also mentioned that at an incremental investment of about Rs. 20 crores in the quartz business, you can double up the capacity. And you're already saying that you have already started running at 100% utilization in quartz.

**Sunil Arora:** 80% to 85%, yes.

**Prateek Chaudhary:** So, which is almost optimally utilized. So, by when you see making another Rs. 20 crores investment to double your capacity?

**Sunil Arora:** It's difficult to say right now. Like I said, '23 is still very challenging. We hope that '24 things will be much better. And that's the time we'll look forward for the expansion. This is the time to consolidate things and keep things together.

**Prateek Chaudhary:** And what sort of margins do you enjoy in this business, in the quartz business? What's the general range of EBITDA margin in the quartz segment?

**Mahadevan Madangopal:** Yes, around 5% to 10%. We are doing now basic white color material. And once we start doing designs in quartz, margin will be much better.

**Sunil Arora:** So, basically, this quartz business, we were supposed to start in 2020, but it got delayed due to the COVID. We lost 1 year there. And then we had the shipping line problem. Then we also had this, of course, the duty issue. It is just that we have started this plant recently, in full swing. So, initially to start with, we have started with the basic material. So, the margin in basic material is comparatively less. But going forward, we'll be able to make designs, which can get much better pricing and better margins.

**Prateek Chaudhary:** And when do we expect to do that, by starting when?

**Sunil Arora:** By another 1 year.

**Prateek Chaudhary:** And sir, my final question is on all the investments that we have made in our business and we are still running at low utilization in the overall business. So, by when we expect to clock, say, Rs. 350 crores to Rs. 400 crores kind of a topline.

**Sunil Arora:** Like I was explaining, that last 1.5 years has been very challenging, not only for us, for everybody. Though '23 is still tough but '24 onwards, we are very hopeful our turnover will be for the next financial year, we are looking at INR 250 crores plus.

**Moderator:** Our next question comes from the line of Shikhar Mundra with Vivog Commercial Limited.

**Shikhar Mundra:** Sir, so I want to understand, for the quartz business, how would our quartz compare to the market leader from India, like in terms of realizations and in terms of quality?

**Sunil Arora:** Absolutely, we can make international quality. As it is 100% new, we are exporting to United States, the quality has to be the top-end. So, there is absolutely no issue on the quality and the material what we make, and this is already being exported to U.S.A.

**Shikhar Mundra:** Do we also have used the BretonStone plant?

**Sunil Arora:** Sorry, what we?

**Shikhar Mundra:** The BretonStone plant, which is considered the best machinery for this.

**Sunil Arora:** No, we didn't go for BretonStone plant. BretonStone is from Italy. We had gone for one of the better lines from China. It's called Veegoo, actually. But the finishing we do in our existing Pedrini plant. So, we were looking at a very conservative way of setting up this unit so that the

cost can be much lower. So, if you see the Breton plant investment, it is almost like 5x to 6x what we have done.

**Shikhar Mundra:** And how would our realizations be compared to the most premium quartz, the ones manufactured from BretonStone later?

**Sunil Arora:** This plant quality is same only. We can make the same type of material, what Breton plant can make. Like I was just explaining that we have started this plant recently. So, we need some time to go into high-end material, which we must develop designs and we must do our own R&D and come up with the colors, material, which are high end.

**Shikhar Mundra:** And what are our current realizations for the quartz material?

**Mahadevan Madangopal:** Pardon me, current?

**Shikhar Mundra:** Current realizations for quartz?

**Mahadevan Madangopal:** Realizations, right.

**Sunil Arora:** Roughly, our price now is in the range of especially in the U.S. market, averaging from \$5 to \$10.

**Shikhar Mundra:** And I want to understand our cost structure. When it comes to facilities, for example, the Hosur facility, what is our fixed cost and what's our variable cost? Like at what point do we breakeven? What are our fixed costs?

**Mahadevan Madangopal:** Fixed costs, we have salaries, depreciation, finance charges, overheads, all overheads put together. So, Hosur and Jaipur and we break even Hosur, Hosur factory with a turnover of Rs. 8 crores per month. Jaipur SEZ, a newly started factory, so cost efficient. And we do a margin of 10% to 20% in Jaipur, with a turnover of Rs. 5 crores per month.

**Sunil Arora:** That is the breakeven.

**Shikhar Mundra:** In Hosur plant, we have 3 plants, sir.

**Mahadevan Madangopal:** Correct.

**Sunil Arora:** Our Hosur plant is the slab plant, tile plant and the quartz plant. So, all put together, we can breakeven at a low range.

**Shikhar Mundra:** At Rs. 8 crores per month?

**Mahadevan Madangopal:** Yes.



**Shikhar Mundra:** So, roughly Rs. 96 crores per year is your fixed cost for the Hosur plant?

**Mahadevan Madangopal:** Yes.

**Shikhar Mundra:** Okay. And that includes the depreciation, interest cost and the overheads, everything?

**Mahadevan Madangopal:** Yes. No, just let me come again. Hosur, we have 3 verticals, okay, slab, tile, quartz. Now slab, let us say, per month we do Rs. 8 crores; tile, we do Rs. 3 crores; quartz, we do Rs. 3 crores let's say. So, total turnover Rs. 15 crore a month. This is the sales. So, that is Rs. 180 crore is the total sales we do per year. That is the average sales we have been doing in every year. As far as the margin is concerned, we do 30% margin. So, that gives us 30% of Rs. 180 crores is Rs. 54 crores. That is the margin that we get. Rs. 54 crores. Balance Rs. 130 crores are our total fixed cost per annum.

**Shikhar Mundra:** Rs. 130 crores per annum is the total fixed cost. That's for all the facilities?

**Mahadevan Madangopal:** Yes. Then comes variable costs, like raw material, packing material, consumable.

**Shikhar Mundra:** So, just to confirm this Rs. 130 crores were for Hosur as well as Jaipur, right?

**Mahadevan Madangopal:** No, it is for Hosur only.

**Shikhar Mundra:** Only Hosur. Okay. All right. And so, this Rs. 130 crores of fixed cost and so this is basically the breakeven in terms of revenues, right?

**Mahadevan Madangopal:** Right.

**Shikhar Mundra:** And what's the variable cost as a percentage of sales?

**Mahadevan Madangopal:** Variable cost as a percentage of sales will be roughly, it's like 60%.

**Shikhar Mundra:** 60%. And similarly, for Jaipur, what would you say are the fixed cost and the variable cost as a percentage of sales?

**Mahadevan Madangopal:** Roughly 70%.

**Shikhar Mundra:** Is the variable cost, right? And what would be the fixed cost in terms of crores?

**Mahadevan Madangopal:** Jaipur is a smaller unit, Rs. 15 crores.

**Shikhar Mundra:** And with this Hosur, the material problems continuing in the Hosur plant. So, what is the plan like? How do we plan to increase our utilizations at the Hosur facility?

**Sunil Arora:** That's why we set up in the same premises this quartz plant. It is the same land. We had a land with us. So, in the same land, the quartz plant has been set up. And even the existing machinery of this Hosur plant for granite is being used for quartz. Apart from that, we also added here multi-wire 5 years back and we are cutting international materials, we get blocks from Brazil, Norway, Finland, we cut and that also we export. Other than that, we do also cut to size value-added material. So, we are keeping our Hosur granite plant busy. And of course, tile, we have been doing for a long time.

**Shikhar Mundra:** So, multi-wire, I mean, multi-wire, so, is that a big opportunity in multi-wire, I mean, we can do substantial revenues from the multi-wire thing, to compensate for this lack of material.

**Sunil Arora:** That is why, we basically use it for the international blocks, which are fragile, which are high-end material, expensive material. So, we use the multi-wire technology to cut the imported material, which gives us value.

**Shikhar Mundra:** And how much is the revenues from the multi-wire thing as of now?

**Sunil Arora:** Roughly from our Hosur turnover for the slabs, it's about 20%.

**Shikhar Mundra:** 20%. And how fast do you think this opportunity is growing up and how fast do you think you can ramp up this thing?

**Sunil Arora:** This is almost like optimum because we have to compete from China, same material even China can import. We must even compete with the Italians. We must compete with, of course, Brazilian. So, overall, for us, only thing is, we provide to our customers one shop, one place where they can get international material, they can get Indian material, they can get quartz, they can get tiles. So, all together as a package it suits them, they take from us.

**Shikhar Mundra:** So, for the next 2 years, I believe, our quartz facility can be optimally utilized at 80% to 90% utilization. Is that correct?

**Sunil Arora:** Yes. We already started using it.

**Shikhar Mundra:** Jaipur slab capacity can also be used?

**Sunil Arora:** Jaipur will also scale up, most of the things are getting sorted out now. So, Jaipur will also scale up. We already did the expansion, year before last.

**Shikhar Mundra:** But the tiles and slabs will continue to be at similar utilization?

**Sunil Arora:** Because like we said, the main issue is the availability of blocks in the South. Scaling up business basically depends upon the quartz and Jaipur.

**Shikhar Mundra:** And so why has there been a shutdown in these mines? Like, can you explain me that part.

**Sunil Arora:** It's 9 years now actually. To be honest with you, it's more of political issues. I have nothing to comment on that.

**Moderator:** Our next question comes from the line of Prateek Chaudhary with Saamarthya Capital. Please go ahead.

**Prateek Chaudhary:** Sir, this BretonStone technology, the largest competitor from India, so why would someone like Pokarna go with the Breton technology and pay a much higher sum for that technology if there is not much difference in the quality of the product that comes out from a BretonStone plant versus a Chinese plant?

**Sunil Arora:** Yes. I'll explain in detail here. First of all, the main difference between Breton plant and this Chinese plant is the productivity. So, for example, in Chinese plant, we we can go maximum up till 150 slabs per day, whereas in Breton plant, they can go up to more than 400 slabs per day. And then, of course, Breton, they do give along with the machinery, the technology of making special colors, special material, which we are developing on our own. That's why I said, it will take us a little bit more time to develop those new colors, new designs. So, that's the basic difference between Italian companies and the Chinese. But if you really look at it, in India, we're almost like now 55 quartz companies. Out of that Breton will be maybe 4, rest are all Chinese.

**Prateek Chaudhary:** Is there a difference in terms of manufacturing efficiency or the speed as well?

**Sunil Arora:** Yes. Like I said, the capacity, like per day Breton plant can produce 400 slabs, whereas Chinese plant, which we have, we can do 150 slabs, but there are many plants, they do only 50 slabs or 100 slabs per day.

**Prateek Chaudhary:** And is there any difference in realization of these 2 plants, Chinese and BretonStone?

**Sunil Arora:** No, not at all. The customer will never pay extra price for the Breton plant because the quality is same. Ultimately, the raw material is the same, the finish is same, the end product is same only. Only thing is, if you have some special design, you get better price. Like I said, in this quartz, for basic colors, you get certain prices. The high-end colors you can get much higher price, which can be very high, actually. So, if you can make those colors, you get good realization.

**Moderator:** As there are no further questions, I would now like to hand the conference over to Mr. M. Madangopal, CFO, for closing comments.

**Mahadevan Madangopal:** I would like to thank all the participants for joining the call today. I hope we were able to answer all your queries. In case there are some unanswered queries, please feel free to reach out to Mr. Abhishek from TIL Advisors, our investor relation advisor. We truly enjoyed our

conversation today. I look forward to future interaction with all of you. Thank you, once again, for your time and have a wonderful day.

**Moderator:** Thank you. Dear management members, I would like to let you know that there was a participant in the question queue. Would you like to take that question?

**Sunil Arora:** Yes, sure.

**Mahadevan Madangopal:** Yes.

**Moderator:** Management members, the participant has left the question queue. Thank you, management members for your time. On behalf of ARO Granite Industries Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.