

“ARO Granite Industries Limited Q4 FY22 Earnings Conference Call”

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MODERATORS: MR. GAURAV SUD – KANAV CAPITAL

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY22 Results Conference Call of ARO Granite Industries Limited. As a reminder for the duration of this conference 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. To remove yourself from the queue, you may enter ‘*’ and ‘2.’ Should you need assistance during the conference call, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gaurav Sud. Thank you and over to you, Mr. Gaurav.

Gaurav Sud: Thanks, Rutuja. Welcome everyone and thanks for joining this Q4 FY22 earnings call for ARO Granite Industries. The results and investor updates have 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 Kumar Arora - Managing Director; Mr. Sahil Arora - Whole Time Director; 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 follow with a Q&A session.

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 we face. These uncertainties and risks are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual report, which you will find on our website. With that said, I now turn over the call to Mr. Sahil Arora. Over to you, Sahil.

Sahil Arora: Thank you, Gaurav. The management of ARO Granite Industries Limited would like to welcome you to the year ending concall. Thank you for taking out your time for attending this call. Our sales for the year grew 26% to Rs. 226 crores, thanks to a great Q1 and Q2 numbers with profit after tax increasing by 47% to Rs. 8.90 crores. The growth in sales and profitability was due to a very strong first half of the year. The shipping challenges of Q3 and Q4 however prevented our sales increasing even further.

During the year, our Quartz plant reached good acceptance in the North American markets for our basic volume colors and order flows was smooth. Despite the challenges of not having the Chinese suppliers technicians onsite we have been able to reduce rejection of contamination to low levels. This helped us achieve breakeven levels in the first full year of operations. Quartz for the year represented 19% of our total sales. Our Jaipur plant continues to shine with Jaipur contributing to 19% of our sales. With four new quarries opening in North India, we ordered a second Multiwire to complete the master plan on the factory designed in 2018. The second Multiwire cutting machine will increase the capacity from 40 containers to 60 containers per month without any additional machinery and building required. In January of 2022, we were

able to add 7 new colors to our portfolio with our North American customers finally being to visit us. Some of these new colors were quickly picked up with repeated orders.

In South, we continue to struggle with raw materials. With COVID challenges in Q1 affecting the labor force and productivities of quarries, our Hosur plant suffered. To compound these issues, in the second half of the year, many quarries in Andhra, Telangana and Karnataka also closed out due to political pressures. This also affected our Tile plant as some key colors were closed and many struggled with labor shortages. Our slab plant in Hosur accounted for 46% of our sales and our tile plant accounted for 16% of our total sales. During the end of Q2, the world was plunged into a massive supply chain crunch.

There was a huge container shortage from August to September. This container shortage was caused by measures to counteract the spread of COVID-19 and the labor shortages at various ports and truck driver shortages at various locations. It was very difficult to get containers which cost container prices skyrocket to 3x to 4x of the regular price in August. This sudden price increase led to customers delaying container dispatches. We had with us 250 containers ready, inspected and packed without the container to load them in. We included the materials ready, but non-inspected. The work in progress and all other materials, we would have more than 500 containers at that particular point. In October, Los Angeles port had more than 120 container vessels waiting to dock and to be unloaded.

As container availability improved, the price of containers continued to edge upwards with 20 foot containers to USA and now costing as much as \$15,000 per container. The increase in availability of containers was mostly due to returning empty containers from West to Asia and also the construction of many new empty containers. This additional traffic of movement of containers has created a huge congestion at various ports. This is therefore India as we rely on all transshipment ports like Colombo, Sri Lanka and Dubai. The congestion has led to a large rollover time and increase in total selling time. This has caused further delays in our reorder of containers and colors.

Due to the weekly fluctuation of container rates, customers are not ordering as per projections, but only as per actual sales and need be. Some colors are only ordered for immediate sales whereas in the past, many warehouses would have stocked them for 9 months as inventory. The shipping cost to USA has led to a 40 to 50% increase in the landed price which shipping cost going for as much as 10 to 15% of the landed cost in previous years, now being anywhere between 30 to 50%. Eastern Europe is a key market for us. The current Ukraine-Russia situation has already affected the sales in these areas to a certain extent. However, our customers in these areas remain optimistic about the future of the industry. Despite the challenges of raw material, shipping and conditions in Eastern Europe, we continue to look forward to a bright 2020-2023. We thank you for taking out your valuable time to join us for this concall and I would now like to open up this call for questions. Thank you.

- Moderator:** Thank you. We will now begin with the question-and-answer session. The first question is from the line of Siddharth Agarwal from Prudent Value Advisors. Please go ahead.
- Siddharth Agarwal:** Sahil, my first question is, could you throw some light on how is the demand scenario for our product especially in US?
- Sahil Arora:** The worldwide demand for construction material continues to be strong; however, there is spike in prices like I was mentioning that cost price, the landed cost of materials has gone up by almost 50%. So, that does affect the immediate requirement. In the long term or in the medium term, building material is still in high demand especially in US and Europe, building material is still quite sort after.
- Siddharth Agarwal:** So, Sahil, in a scenario like this where the landed cost of products is increasing, does that lead to some kind of inventory liquidation for our channel partners onsite and so the inventory is reducing there, which may lead to larger demand to refill the inventory once the logistics sector normalize?
- Sahil Arora:** The landed cost is not the only challenge at the moment. It is also the shipping time that has gone up, so the shipping time for East Coast USA, for example, has gone from 34 days to 90 days, so almost 3 times. They are not trying to liquidate all stocks at the moment but are in fact enjoying the profits of having lower price stocks from the past.
- Siddharth Agarwal:** Our sales and our profits have been declining from the last 2 quarters, could you please elaborate why this is happening, is it just due to the shipping costs or are there more factors here?
- Sahil Arora:** Purely because of the shipping cost from \$1500 to \$2000 the container has gone to now \$8000 to \$15,000 a container. So, that is anywhere between 4x to 15x, 10x the price of the container and like we were mentioning from 12% of the landed cost, it has gone to 50% of the landed cost. Of course, that affects the total sales and this is not in a short period of time. This is in 6 months period that this price increases happened.
- Siddharth Agarwal:** So, because our net profits have declined significantly from roughly Rs. 5 crores in Q2 FY22 to a net loss of 16 lakhs here, so this is primarily because of sharp increase in shipping in logistic cost?
- Sahil Arora:** It is because of lower scale of economy, so our sales have come down and that is because of the reorder process that is not happening caused by the shipping prices and the shipping delays.
- Siddharth Agarwal:** Does that equally impact both the segments, granite as well as Quartz?
- Sahil Arora:** Yes, it effects on both the segments.

- Siddharth Agarwal:** Now, you mentioned that once again in Hosur, we are seeing raw material issues with mines again closing down, but in Jaipur we have raw material availability is in abundance, so do you think that Jaipur overtime could surpass Hosur plant in terms of sales and profit?
- Sahil Arora:** It is hard to say because our installed capacity in Hosur is a lot bigger, so if you consider Hosur also has the tile plant in natural stone division, so it is hard to say it will surpass in terms of sales or profitability. Only time will tell because we are also hopeful that the raw material issues that we are facing right now will eventually resolve itself and we can also see a bounce back in the Hosur division.
- Siddharth Agarwal:** Do you mind, what is the reasonable solution because it has been quite a few years now that we have been facing this raw material supply issue in present India, so what needs to happen for us to have reasonable supply, so that our operations are now at....
- Sahil Arora:** We are trying our best for the government through our association, but it is up for the government to decide whether they want to actually open it or not. It is not up to us. For us, what we are looking at now in the coming years to increase more our imported materials in the South with our domestic market also growing with exports of or the requirement of luxury stones improving. That is the segment we will be focusing on. We will not be relying only on the South sources of raw material.
- Siddharth Agarwal:** And Sahil, this is such a high logistic cost, thus is importing raw material and then after processing exporting back, is it even viable?
- Sahil Arora:** Yes, it continues to be viable as we are not focusing on the markets that are catered by the Brazilian markets, so it is still viable, but also we have a strong domestic market for these products and we are looking at the high end. So, why we gave a range on the transportation is because the higher end your products, the less the impact of transportation on that product.
- Siddharth Agarwal:** And Sahil, about the Quartz plant, could you please tell us what is the total revenue from the plant in FY22 and is the plant profitable now?
- Sahil Arora:** We are breakeven on the plant and the revenue of the plant is Rs. 42 crores.
- Siddharth Agarwal:** In our segment wise, we have shown that our Quartz division revenue is negative this quarter, so why is that?
- Madangopal:** Actually, Quartz is now breakeven because of part of quarter also it is a breakeven. Segment wise, Quartz is breakeven.
- Siddharth Agarwal:** So, my question is that for the revenue when we look at segment wise revenue, for the Quartz division, our revenue is negative?

- Madangopal:** That was the typographical error, when we were punching that data, the portal but Quartz did Rs. 42 crores total for the year. The typographical error was subsequently within an hour or so, it was rectified.
- Siddharth Agarwal:** And could you also please talk about your domestic market performance this year, how has the domestic market been for us?
- Madangopal:** We did a sale of Rs. 20 crores as compared to Rs. 13 crores of last year.
- Sahil Arora:** And this is mostly from high-end products.
- Siddharth Agarwal:** But is this the focus area for us or is it just because we have short-term lull in exports that we are seeing this traction?
- Sahil Arora:** In Hosur, we already have enough machinery and capacity to focus on this area also and there is a big change in the Indian market with a demand for higher end stones being required. We have two segments in the domestic sales that is the high end or the export rejection, so we will be continuing to focus on the high-end sales for the domestic market.
- Siddharth Agarwal:** Thank you. The next question is from the line of Lalith, an Individual Investor. Please go ahead.
- Lalith:** Sir, your net profit had declined significantly from peak of around Rs. 5 crores in Q2 to loss of 16 lakh in Q4, so what had changed the business, I understand there is problem around containers, but is there something else?
- Sahil Arora:** Because of the container issues, normally we export only from Chennai probably in the South and Mundra in the North. When we export from Mundra in Jaipur plant, we normally pick up containers from ICD Jaipur and then we deliver containers to Mundra port by truck. Because of the container shortages, we have been picking up containers from Mundra port and bringing it to Jaipur and then redelivering it back to Mundra port. In some cases, we are picking up containers and dropping to Nhava Sheva port. This is of course an additional expense on the FOBs. Also from Hosur, normally we work only with Chennai, but in the past few months, we have been working with Tuticorin, Krishnapatnam, whichever ports are available, Kochi, wherever we can get containers, we are open to do. This is of course additional in land cost that we are incurring. Further, of course, container cost not only on the export side, but on the import side is also increasing. So, our cost of production has slightly increased which also will affect and of course with the container prices affecting the total landed cost, the acceptance of increased prices is very minimal at the moment and lastly you will see that it is a simple demand and supply thing where demand is reducing because of the container prices, but supply is staying constant. So, a lot of our competitors are selling at very low prices, just to get some market share.
- Lalith:** Sir, this increased cost of shipping is not getting passed to customers, we are taking it of this increased cost?

- Sahil Arora:** No, the increased cost of shipping is completely on the customer. It is the increased cost of inland shipping that is not being passed on because our rates are FOB port.
- Lalith:** And sir, what about our other products like tiles and cut to size and quartz site, how are we doing in those segments?
- Sahil Arora:** Quartz side we actually take as part of our Hosur plant, but tiles is also continuing to be 19% of our business. Year-on-year, there is a growth in our tiles business as well.
- Lalith:** And sir, what about cut to size, it was actually projected as good business, so you said that?
- Sahil Arora:** Cut to size we don't consider as a separate segment, but we take as part of our granite, Quartz and tile plant segments because the material, the slab or the material for it is provided by one of these plants and at the moment we are running at full capacity on the cut to size division.
- Lalith:** And sir, you said in domestic market you did business of Rs. 20 crores, so I think we had raising shipping cost, are we focusing more on domestic market?
- Sahil Arora:** Yes, we are focusing more on domestic market for the high-end products.
- Moderator:** Thank you. The next question is from the line of Lalith, an Individual Investor. Please go ahead
- Lalith:** Sir, you are producing basic color of Quartz due to nonavailability of engineer from plant supplier, so have you start making more complex design now?
- Sahil Arora:** Yes, we have already worked at more complex design and already we have made some sales of few containers of complex design, but it is a continuous process and we are adding more and more colors all the time. So, in the past, our focus was on the basic, but in the coming months, it will be stretching to the more complex.
- Lalith:** And what about the profitability in complex design?
- Sahil Arora:** It's only been one month, we have not really taken out the profitability on the complex designs.
- Lalith:** Are we profitable in overall Quartz segment?
- Sahil Arora:** We are breakeven on the Quartz segment.
- Moderator:** Thank you. The next question is from the line of Siddharth Agarwal from Prudent Value Advisors. Please go ahead.
- Siddharth Agarwal:** Sahil, for the Quartz division, is there any plan to cater to a domestic market as well from there?

Sahil Arora: Not at the moment, we are not planning to cater to the domestic market because the prices in the export market are much higher. Of course, our rejects we are selling in the domestic market.

Siddharth Agarwal: And what is our capacity utilization currently for the Quartz plant?

Sahil Arora: With the basics, we were working at about 80%, but because of the last couple of months of shipping issues, we are down to about 60% capacity utilization.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Sahil Arora for closing comments. Mr. Gaurav, there is no response from the line of Mr. Sahil.

Gaurav Sud: It seems that the management is disconnected. We thank you for the opportunity for taking out the time to be on the call. Look forward to having on the call after 6 months. Thank you everybody.

Moderator: Thank you. Ladies and gentlemen, that concludes this conference. Thank you for joining us and you may now disconnect your lines.