



**"Cera Sanitaryware Limited Q1 FY 2016
Earnings Conference Call"**

July 22, 2015



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Moderator: Ladies and gentlemen good day and welcome to Cera Sanitaryware Q1 FY2016 Earnings Conference Call, hosted by Asian Market Securities. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Kotak of Asian Market Securities. Thank you and over to you Sir!

Kamlesh Kotak: Thank you. Good morning everyone. On behalf of Asian Markets I welcome you all to the Q1 FY 2016 Earnings Conference Call Of Cera Sanitaryware Limited. We have pleasure in inviting Mr. Bharat Mody, Strategic Adviser from the Company. I now hand over Mr. Bharat Bhai to take us through the initial remarks and then we shall begin the Q&A session, over to you sir.

Bharat Mody: Good morning Kamlesh Bhai thank you very much. I would just say that ‘**The Vision That Creates Value**’ is the punch line that we have this time. The management has thought that it is the vision that is going to really work

well for the next few years, the way they perceive the market, the way they perceive whole industry, the way they perceive the product positioning that is going to really matter in the time to come. With that we are also trying to balance growth and margins because in an anxiety that we want to chase the growth we do not want to compromise on the margin as we are trying to balance this. Q1 on a year-to-year comparison we grew almost about 20% on the top line and we grew by about 15% in our bottom line too.

We have reasonable set of numbers this time though we had expected that we would perform better but then market conditions and the dynamics, it has really been an uphill task. Despite these the team has been able to perform fairly well. Now with these note I would invite the question and answers from each of you which can be monitored either by Amsec Kamlesh Bhai or whatever the way by the Moderator.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Sameer Tulsiyan of JM Financial. Please go ahead.

Sameer Tulsiyan: Thanks for the opportunity and congrats for a good set of results in challenging market situations, couple of questions from my side. How has the segmental growth been in terms of sanitaryware, faucet and tiles and how do we see the demand scenario in each of these segments currently?

Bharat Mody: The segmental growth in every market has been reasonably good, in fact we have grown in sanitary ware, we also have grown in faucets, we also have grown in tiles but if I say the highest growth has come from the faucet ware and had reasonable growth on sanitary ware as well as on the tiles. I will give you the numbers. I will just give you the breakup in terms of a comparison between Q1 of FY 2016 and Q1 of FY 2015. We had fairly a large business coming from the sanitary ware which is about 63% now this includes the allied products which we generally outsource. Pure sanitary ware Q1 results this time has been in the region of about 49% of our total increased revenue and we have about 14% coming from allied products which almost remain steady if I compare it to that Q 1 of FY 15. On faucet we have really grown from 16% to 20%, so faucet has been one which has been one of the major contributory products in terms of growth,

second is tiles which we just marginally have gone up from 12% to 13%. In sanitary ware if I really say there is a growth of more than 5% on what we were last time and what we have now this time in terms of the volume and value put together. The question here is when you really compare growth and volume in sanitary ware slightly we have to take into consideration as what kind of a product mix that we would be having, if we really go for manufacturing a bigger volume product the volume growth would be lower but then the production value that we turn out may be much higher, therefore if I really say about growth in sanitary ware there also we have grown but that is about 5% to 7% and from 16% to 20% in the faucets.

Sameer Tulsiyan:How do you see demand scenario panning out in each of these segments currently?

Bharat Mody: We hope this to continue at least for two or three quarters that means whole of FY 2016 this should be the trend. As a matter of fact I might slightly put more favors to the tiles as well as to the faucet while we would have a steady growth on sanitary ware.



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Sameer Tulsiyan: What about the faucets, do we expect higher growth coming from them since we have newly ramped up capacity?

Bharat Mody: Very much, yes your observation is correct and it is one of the right thing. We are really hopeful for the faucet ware to contribute more and come out as a major segment where we would have more growth.

Sameer Tulsiyan: What is the status with respect to the joint venture in tiles and sanitaryware?

Bharat Mody: We have been trying to scout and short listing exercise has been there for last about two-and-a-half months. We identified about three people. We also had very serious discussions going on and we were almost on the verge of striking a deal but then when it came to a stage where we conducted due diligence, it revealed that the standard of corporate governance in those units which are more from unorganized were not fitting well into the philosophies that we generally have for corporate governance, so we withdrew from there and therefore it got a slight delay on that but then we are very serious and we are scouting further on that part.



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Sameer Tulsiyan: How do we see our Capex panning out in next couple of years?

Bharat Mody: The Capex we have a rolling plan which is about 180 Crores for the next three years, we generally would be using our internal accruals for that.

Sameer Tulsiyan: On the cost side we see power and fuel cost to be on the lower side, so any particular reason for that and how do we see that going ahead?

Bharat Mody: Power and fuel, there are two things you have to see. Basically power we have gone for an alternate energy. We have extended our own wind turbines power generating capacity now. We generate our own electricity. We deposit them with the State Electricity Board and we get the credit for that and we use it here in our factory. So that has really contributed a sizable reduction in our power cost. Secondly during the last quarter the crude prices also have steadily been on a decline and therefore the gas prices also have come down. The contract that we have with GAIL Authority is costing us about Rs.12.5 to Rs.13.5 as against the market value the gas which used to cost about Rs.40 to Rs.44 has come down to Rs.35 so

because of these the complete power and fuel cost we have the largest savings on that part.

Sameer Tulsiyan: How do we see it panning out going ahead?

Bharat Mody: In the foreseeable future we feel that it is going to remain steady for at least about six, eight months unless there are drastic changes at international level in the crude prices, but as far as administrative price mechanism is concerned we have almost about two-third of our capacity for the sanitary ware base and it is achieved with the help of administrative price which will be frozen for five years. We have an agreement coming to an end by December 2015 and then it will be renewed. Generally, it is renewed with about 10%+ upward; our experience says that for every five years it is renewed and it is about 10% raise so we are currently paying about Rs.13, Rs.13.5 may go to about Rs.15.

Sameer Tulsiyan: On the staff cost side does this quarter include annual increment and additional cost for new staff cost for this faucet ware facility because it looks to be on a bit higher side at 26 Crores around?

Bharat Mody: No it is also for that but there was a wage agreement that we signed in the last year. Unfortunately Q1 of FY 2015 though it become retrospective from April 1, 2015 but then the negotiations were ended up only in the second quarter and therefore Q1 of FY 2015 did not have reflections of those increased wage and therefore in comparison when you really debit that in Q1 of FY 2016 you see a large deviation or a large hike on that part.

Sameer Tulsiyan: But Q4 was also like a bit on the lower side, around 20 Crores, 21 Crores Q4 of FY 2015.

Bharat Mody: Q4 FY 2015 is marginally lower but then you know if you really see Q1 to Q1 comparison this is the major cost and apart from that we are expanding capacities and have recruited people. We have also recruited more people on our sales staff because we are expanding territories and presence.

Sameer Tulsiyan: Do we see growing further with the ramping of the faucet ware facility?

Bharat Mody: Generally the overheads whenever you really try to hire people is always in estimation, like you are building capacities and therefore we will be really going for that,

so at a plant level we almost are through with the capacity expansion so there could be only marginal increase in that part at a plant level but sales force yes, the more we become aggressive on our selling we may need people there.

Moderator: Thank you. Our next question is from Viraj Mehta of Value Quest. Please go ahead.

Viraj Mehta: Hello Sir and congratulations for super set of numbers. Sir I have a question in terms of, if you look at real estate launches across the country and the buyer demand seems to be almost at a three year to five year low, I know Cera has been actually gaining market share across categories including premium ones but at what point do you see in future the end-user demand declining impacting us or you think that by the time that starts picking up we should be okay?

Bharat Mody: You have a very very valid question, in fact we have been debating these every time in our sales conferences, our internal meetings also because sustainability of growth has been a challenge to us, we have been growing and with the expectations also that we try to set a target which are always much higher only question is that so far

so touchwood the going has remained good for Cera. The acceptability of the product across the market has been good and we have been perceived a value-for-money product and therefore the segment where we are positioned probably the impact that you have been talking in terms of the realty has not gone into that kind of that deep though we do experience that, we do experience and we probably would, if I really honestly expect put this I would make a candid statement that we were hoping to really grow with about 25% growth but then we could grow only by 20%, now this growth is below our expectation is not as per what we had thought about. So the time is very challenging and I might even say these are the year of consolidation, may be when this kind of a cyclic movement do come in realty market every three or a five years because of the excess inventory somewhere in some of the pockets and then they settle down and then again these things do come up and pick it up, so we also experience that.

Viraj Mehta: Sir if I talk about the brand endorsement that we have tied up with one of the actresses in last one year the amount that the brand endorsement costs that we are

going to do in future will it grow in relation with the sales or would we see some taper up there.

Bharat Mody: Generally I would say, our selling and distribution and media marketing expenditures are about 4% of our top line, so this is what we would be maintaining. It is a different matter of where we would attribute this cost so that we would like to hire a celebrity and we will be paying lesser or equal amount or we go for something else, but as a budget that we talk is about 4%, 4.5% of our estimated turnover for top line and we will try to work out the best combination which is going to support the brand and the brand visibility as well as affirmations.

Moderator: Thank you. Our next question is from Dhaval Shah of Siddhesh Capital. Please go ahead.

Dhaval Shah: Sir, my question is first on the sanitary side. What will be our average realization for the product in the sanitaryware? What I want to understand is that how have we moved in terms of premiumizing our product since we have become a good visible brand because our endorsement for many years now and what will be the way forward, so how do we achieve more of value growth going forward?



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Bharat Mody: You see every realization is now going at least 20% up year to year basis if I really say that part 15% to 20% has been on an upward.

Dhaval Shah: So in number terms how much it would be?

Bharat Mody: Number terms will be you could say about Rs.150 to Rs.200 per pc. now we almost nearing about 1000, 1200.

Dhaval Shah: 1200 per piece.

Bharat Mody: It used to be about, if I take a stock of last about five years we were hovering around at Rs. 500 Rs. 600 per pc, now these has gone up but despite these if you really say how is the breakup of the entire market we are perceived as a value-for-money product and we are very strong in mass market. Almost 40% of the business comes from the mass market.

Dhaval Shah: How much is that 40%?

Bharat Mody: 40%. We have another 20% - 22%, 23% coming from upper upper end of the market and we have equal amount coming from upper lower end of the market and about 12% to 15% which is coming from the top premium, therefore we would not like lose our ground that we have

on a mass market in an anxiety that we want to premiumise despite trying to go for more premiumization of the product without losing our share in the mass market.

Dhaval Shah: So sir this 40% mass would mean for a consumer that product will be available at what price?

Bharat Mody: The price would be anything between Rs.600 to Rs.1000 the reason being there is about 40% to 45% add on in terms of the excise duty, in terms of dealers margin, in terms of distribution cost, in terms of the state taxes like VAT and all those kind of things.

Dhaval Shah: So you said 45% of Rs.1000/-

Bharat Mody: Almost yes.

Dhaval Shah: How is the marketing and business approach of the premium American and the premium MNC companies like TOTO American standard in India what sort of competition are you facing what is their strategy?

Bharat Mody: Well, they are all in a different segment I would say. We generally do not compete on head-on with any of the global players because our market or products segment;

we are in a very different market segment. We do compete them on their lower / middle range we try to sell our premium range we call it our premium range and when we say we call it our premium range would mean all the Indian players whether it is our competitors like Parryware and HSIL, then when you talk about TOTO or Duravit, or Kohler with their higher range, they are much, much above. We do not compete with them.

Dhaval Shah: Sir we were quite a bit dependent upon the project sales since the market itself was growing new construction was happening so now since project sales would have slowed a little bit then how would we combat this slow project sale, so more of increase in sales incentive to the staff so we can see an increase in our employee cost or should we expect some reduction in the growth going forward because as the previous participant said there is a big glut in the inventory plus the new construction also has taken a big hit.

Bharat Mody: This is not true, you are mixing up two issues, rise in cost of the manpower is independent of whether there is demand or not. Rise in the cost is because we are building capacities. As I said it is a year of a consolidation for us.

We need to build the capacity because capacity takes at least about eighteen months to two years in industry where we are, now when the demand really opens up even if we start building capacity you would always miss the bus, so our experience says that okay in a lean period you try to build the capacity, try to be ready, when the market cyclically an upswing mode you are ready with the deliveries and whatever that standard you have in your manufacturing so you are building capacities and therefore you are spending on manufacturing that is one. Second in a subdued market there are more efforts required. There were the days where you always used to get orders on a phone call probably you can do a business but now people have to move around, people have to travel, people have to go in to the interiors, you have to intensify all your efforts. Now when you intensify those efforts you require more strength and you require more people to really at least remain in business, not only that now with the capacity that we have expanded we are also entering new territories. The moment we enter new territories we require a fresh set of people there, manpower cost is not directly in proportion to the topline growth but then it has a relationship but as I said it is a year of consolidation therefore you try to consolidate the

entire thing in a way where the growth really comes, you always match your expenditures the way you would grow.

Dhaval Shah: Sir on the faucet business now what is our strategy to grow basically at the time when things are not very good and Jaguar would also get very aggressive so are we competing with them only on the price point or something else than that?

Bharat Mody: There is one plain simple fact that yes the complete real estate market has been slightly subdued; it is a very challenging situation for everyone who is in building material space. So that is hard reality and we accept that thing. Every competition they have their own strengths and weaknesses, Jaguar our main competitor or probably the leader in the market they have their own strengths as well as weaknesses. Now vis-à-vis we also have our strength as well as where we feel, challenging situations so we try to strategize in a way where we would be able to gain a market share, we do not compete with anyone on the price front. There are certain products which are entry level, everybody may be competing but that is not really the basic focus from our side but we have to offer

those kind of an entry level product also to be remaining in the market but the focus is always on a product which adds value to us. So you cannot compete in a competition purely on price but you compete always on your designs, compete on your quality, compete on your services, compete on your deliveries so there are so many other things on which you compete and you can always outpace competition somewhere.

Dhaval Shah: Sir there was an article in the paper three days back that tile industry is facing dumping from China so what is your thought on that?

Bharat Mody: This has been in the news because it has been going on but then I do not think that is going to really go on a long way because we are at a space where we do not really compete those kind of a dumping as I said we are more on a mass market on that part, mass in the lower and upper end.

Dhaval Shah: So dumping is more on the premium side you mean?

Bharat Mody: Mostly it would be on that part of your side, otherwise the freight cost that when you import from China willing be killing to you, so unless you have a product which is a

high value the freight cost will be exorbitantly unabsorbable.

Dhaval Shah: Sir there was some anti-dumping duty also on Chinese tile if I am not mistaken.

Bharat Mody: Yes, government does come out with everything, on the tiles these have been for several years they tried to do it.

Dhaval Shah: So these tiles do not fall in that segment of anti-dumping?

Bharat Mody: Well, they may be falling, we need to take a detailed study on that part but where we are now positioned it does not affect us that big.

Moderator: Thank you. Our next question is from Nehal Shah of Antique Stock. Please go ahead.

Nehal Shah: Sir a couple of things, one thing I just missed on the volume side you said the volume growth in sanitary was close to 5% while 16% to 20% was faucets, is that right?

Bharat Mody: No, 5% is only for the sanitaryware, for the faucet ware there is no volume growth I could really identify and tell you because we outsource lot of components, subcomponents and therefore it is not possible to give

you a volume there I can only give you a value growth there.

Nehal Shah: What is the value growth in tiles and faucets?

Bharat Mody: Faucets we have a value growth which is from 16% to 20% on a Q-to-Q basis and in tiles it is from 12% to 13% it would increase the revenue so in absolute amount there is a sizable growth.

Nehal Shah: Now this you are saying is quarter-on-quarter right not year-on-year?

Bharat Mody: No it is quarter-to-quarter.

Nehal Shah: So the year on year would have been close to 25% in both faucets as well as tiles?

Bharat Mody: You could rework out that part and arrive at a figure. I have not worked out that figure.

Nehal Shah: Sir since the ensuing demand has obviously been on the lower side what kind of guidance would you now give?

Bharat Mody: We are very cautious on that part we would not like to give any kind of a guidance which probably would lead in terms of raising any kind of your hope that okay we are

going to have a growth which is going to be more than what we have been performing now. We will be very happy if we can maintain about 20%, 22% growth on a year. We have performed even more than 50% plus growth also in some of earlier years but these are exponential growth but to repeat this kind of a growth is unrealistic and when you have a larger base it is not possible, but generally Cera has, if you really say, last about 10 years has always been growing for more than 20% and if I say last five years yes reasonable growth of about more than 30% - 32% has been there so if and if I really try to be conservative on that part maybe about 20% growth but these are all subject to market dynamics and should not be taken as a guidance unless proper due diligence and your own studies try to substantiate about ultimate conclusions you would like to derive at.

Nehal Shah: Sir what is our dealer network as of now?

Bharat Mody: We are almost about close to 1400 and 14000 dealers and distributors.

Nehal Shah: 1400 dealers and 14000 stockists.

Bharat Mody: Yes.

Nehal Shah: Sir where do you see this growing up in over the next two years?

Bharat Mody: This is an ongoing process. We would try to expand as much as possible. If I really give last three years, before three years we were about 5000, 6000 and we have now gone to about 14000, we would be targeting at least to cross 20% more in the next two to three years.

Nehal Shah: Sir lastly on the margin side where do you see margins going forward considering the kind of stretch we have on the revenue growth going forward?

Bharat Mody: See there are two ways you could talk about it, one is the margin which is EBITDA margin, now EBITDA margin purely would be related to what we manufacture, now the business model that we pursue is a combination of manufacturing as well as an outsourcing model which is more or less a contract manufacturing kind of a thing. Now when you say in-house manufacturing, EBITDA does matter but when you really have an outsourced rate contracts and therefore the EBITDA is hardly mattering and therefore as a composition of an outsourced would be predominant in time to come the EBITDA would lose its importance but despite that it is a matter that yes it

has to be really be around 14.5% to 15% this is the internal target that we would be talking about and we try to really see that but what matters to us is return on equities because at the end of the day my margin may be lower let's say if I have a tile where I have only a single digit but if I probably can turnover that four times it would have reasonably a good margin. So what matters to me is a return on equity rather than a pure EBITDA margin but despite this your question has a lot of importance and therefore a 14.5% to 15% seems to be reasonable achievable with the strength that we have.

Nehal Shah: Sir in the sanitaryware space have you been passing on the benefit coming in from the fuel prices?

Bharat Mody: Not exactly, the reason being we have not raised any price and if we had the savings on fuel price but we have a lot of other overheads going up and therefore it was balancing it out, so there was no reason why we could really any benefit or pass it. Only thing really felt was okay we will not raise the prices.

Moderator: Thank you. We will take our next question from Anshuman Atri of Espirito Santo. Please go ahead.

Anshuman Atri: My question is regarding the institutional versus retail so what is the growth in these two and what would be the mix for us?

Bharat Mody: Basically it is almost generally about 50%-50% but then okay it is more on a retail it is about 55% and 45% is on institution and if you really see the entire business is dependent on the construction and generally would be the new construction, so whether it is institutional or even through retail it goes through new construction and that particular ratio generally does not affect us because we do not really bill directly to the builders, it is always the dealer or the distributors who are in the loop so we always bill on our dealers or the distributors, he in turn would bill on a builder. So our margins do not really get affected with the combination or a change in our ratio.

Anshuman Atri: Second question would be in terms of growth and region wise are we seeing slowdown across regions or is it specific regions which are leading to a slow growth?

Bharat Mody: The northern region has slightly a slower growth compared to southern but despite this yes there has been a general slowdown everywhere, it is more of a thing people have been trying to be more watchful rather than

there is a slowdown, let's wait for a while and the reason excess inventory that everybody is talking about it has to settle, the question is that okay the prices are not really coming down for the ready properties much, it may not go on a raise but it is not coming down therefore at the price at which people would be ready to buy maybe three months, six months or a year down the line it will settle then new projects would really come up.

Anshuman Atri: Final thing is on the long-term basis are we seeing an increase in the replacement demand as such?

Bharat Mody: There is a tremendous market, honestly this is one market which we have been eyeing very seriously but unfortunately it is full of hassle because when you want to re-do a bathroom you need a mason, you need electrician, you need a plumber, you need an architect to design a lot of things and it is a combination of those agencies which is dependent on a labor force which are many times I would not like to use about irresponsible but they have their own standards about how they really try to execute and it becomes an headache while you are staying in the house and you want to renovate it is full of hassle, therefore people defer that decision as long as

they can though they would like to do it so once these hassles that I have been describing are settled or there is a way that everybody is amicable we are able to find, it is a huge market, huge market, because lot of new products coming in, I am pretty sure if you visit any of our studios you would be tempted to renovate your bathroom next day. So that market is very big but the only question is there are hassles.

Anshuman Atri: So are we trying to do something in terms of say or providing organized services?

Bharat Mody: No, we did try but then we have not been very successful the reason being at every point you again depend on the same set of people who are unorganized and therefore by getting directly involved into it you spoil your own brand image Cera is not able to perform this, so we are slightly cautious on taking those kind of a call whether we want to get into that but we want to promote some people on that.

Moderator: Thank you. Our next question is from Umesh Patil of Sharekhan. Please go ahead.

Umesh Patil: Question is from my side. Just wanted to know as you rightly said that our 40% of business revenue comes from mass market where we have strong presence, is there any competitive intensity there and just wanted to know have you seen any demand slowdown in that particular segment, if you can elaborate?

Bharat Mody: Your question is twofold, do we have a competition in that and is there a demand slow down; competition yes there is competition - unorganized sector is trying to raise head and trying to get into that kind of a market yes that is always there and even our own peers, our own competition who are also trying to get into that kind of a thing, so competition is always there but then when customers – end users try to graduate from unorganized to an organized sectors, Cera is one which is being perceived as value for money product and is the first shake hand point that you meet them, it is value-for-money product very dependable and very responsible product line with a lot of varieties and a very comfortable on price and quality so you have a strong foothold here that is for sure. Secondly, the slowdown yes but despite these slowdown that we generally see in metros, it is not there in tier two, tier three and the lowest town and the

villages, maybe yes we are more dependent on the rain god and therefore sometimes the delays or an unseasonal rain do affect a lot of demand forecast, in fact if I really tell you we had the worst of in January and February in last ten years as we had unseasonal rain. Now this kind of a thing do really affect our kind of a business and where we are strong so a lot depends upon the village economy and the agriculture economies.

Umesh Patil: Secondly sir just wanted to know my question is related to replacement demand what is the revenue proportion was split between fresh sales and replacement or refurbishment demand mix, fresh demand comes generally as you highlighted that from new property development, middle and low base right while replacement generally comes from retail segment so any slowdown witnessed in consumer spending as well given the fact of recent time and challenging outlook.

Bharat Mody: First of all let me redefine what a replacement is because there has been no authenticated data exactly what replacement percentage would be honestly. We made internal studies and we came out with a figure that okay there are about 82% goes for the new construction and

the 18% goes for the replacement market. Again when you break this up about 18% which identified as a replacement market we had further intensified that studies and it came out into a thing if you bought a two bedroom apartment somewhere and when you have consulted an interior designer or an architect he or she that designer did not like the bathroom that it was offered by the builder now you want to re-do that part now I do not really know whether you would call it a renovation or would still call it a new construction. Renovation would purely mean that you are staying in the house and then you are redoing the whole thing undergoing every hassle that you have. This is very, very difficult to find in terms of the statistics as well as to really do not have vouchable data.

Umesh Patil: Sir what is the market share as of now in organized market?

Bharat Mody: We are almost about 23%, 20% plus on that market.

Umesh Patil: And what was it few years back in 2012?

Bharat Mody: Well at 2010-2011 we were about 18%.

Umesh Patil: So gradually we are increasing our market share right.



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Bharat Mody: We are increasing market share in the increased market, because the market also has gone up in five years.

Moderator: Thank you. Next question is from Jaspreet Singh of Systematix. Please go ahead.

Jaspreet Singh: Sir just some data point in terms of the figure that you mentioned so sanitary ware today contributes about 53% which was around 47% till the same quarter last year. So how has that moved I just wanted to understand how has it moved year on year just tile and the faucet?

Bharat Mody: Let me correct the figures first of all the Q1 of FY 2015 we had a total sanitary ware coming as 53% and now this time these has gone down to 49%.

Jaspreet Singh: And allied would broadly be same at 12, 13%.

Bharat Mody: It was about 14% to 16%.

Jaspreet Singh: That is same okay, and the balance tiles and faucet side how has that moved sir?

Bharat Mody: The tiles have moved from 12% to 13% and faucet there is an upward revision which is from 16% to 20%.

Jaspreet Singh: So that is where the main thing is and now having our faucets at reasonable capacity 7000 plus pieces per day what would be the utilization that we would be I know market has also to absorb that but broadly what would that number be let's say for 1Q?

Bharat Mody: I would say the entire year or would we are estimating for FY 2016 it is a futuristic statement I am making and it will be taken very cautiously with due diligence from your side but we hope that yes, we would be using this capacity at least about 60% to 70% for the increased and then we would stabilize that part and we would reach 100% in next FY 2017.

Jaspreet Singh: And on the sanitary ware side 3 million pieces that is running on optimum number.

Bharat Mody: Almost yes, we are almost touching that capacity utilization

Jaspreet Singh: So the expansion there towards 3.2 targeted towards second half that is on track?

Bharat Mody: It is already on track but by the time it really becomes operational may take another about eight, ten months, let

us not really make any estimation. The fact would only come in FY 2017 if everything goes right way.

Jaspreet Singh: And lastly sir on this the tie-up that you had mentioned in the last analyst meet regarding the premium and with the European player to be launched in the second quarter so have you done that and what is the traction?

Bharat Mody: We already have done it, we are fairly ahead on that part and we have started bring those consignments also and there would be some exclusive dealers whom we have tied up with, it will be displayed also, it is basically on a premium range where you need to really have a presence, Cera backed up with Italian design and European technology.

Jaspreet Singh: So this is the segment where you would be committing mostly with the MNC brands.

Bharat Mody: Exactly.

Jaspreet Singh: So clearly here the realization would be two to three times higher than our current NSR.

Bharat Mody: Yes but then basically we only would be procuring that from our European partner and that would be marketing.

I would not really be very optimistic that okay we will have a larger business for the year, year and a half down the line it is only where we would like to really come out that we have a solid presence on that premium segment, once that is stabilized we have a strong feet there then only we will try to take a leap forward from that part but then this is the year where we would be more on an introduction on that part.

Jaspreet Singh: So in terms of incremental spend is or in terms of the distribution network that synergy remains same right the same, in terms of the distribution channel through which it will go through?

Bharat Mody: It would be the same but then there was some exclusivity would be attached to that part, some dealers will have to today are multiband dealer, Will distinguish with exclusivity while marketing premium Italian designed products manufactured with European technology and would be really going for that kind of a product. Our competition also maybe a global brands. We wish to combat with exclusive dealer for that matter, the dealer does not sell other than our products, this is the way as of now that is the way we are trying to really market that.

Jaspreet Singh: Sir I am just trying to check the kind of return capital here crosses that our benchmark of 20% plus from a product category perspective.

Bharat Mody: Well there has to be better margin because the expenditures currently also on advertisements also would be high for that margin unless we have we will not be able to cover up, we try to really have a margin which we are at least able to absorb our increased overheads and publicity expenditures.

Moderator: Thank you. Our next question is from Alok Ramachandran of Future Generali. Please go ahead.

Alok Ramachandran: Sir, just wanted to ask you regarding the market expenditure that if I question how much is that do you expect to do this year as a percentage of sales?

Bharat Mody: About 4%, 4.5%.

Alok Ramachandran: And is that consistently been increasing over the past few years or is there...

Bharat Mody: We tried to really keep it as about anything between 4%, 4.5% it includes our media budgets, also includes our marketing.

Alok Ramachandran: And prima facie on the business side what has been the companies vision especially with the recent governments, Swachh Bharat Abhiyan programs, is the company trying to look at tapping at market and also look at government orders or will it provide these as a different I know whether it might be have some kind of a margin or a brand image dilution for the company but then would the company would like to target this market share is one question of mine and secondly I was just looking at through your presentation that is available on our website this was regarding the imports that you do, how is that competitively much more pricier in terms of the pricing that you do with the imported sanitaryware that you come across compared to your domestic in house manufacturing and in terms of quality how better it is than the in house manufacturing and whether that can be also be made in house those are my questions and regarding the domestic slowdown that you are mentioning earlier especially in the real estate market in the Northern region do you see that kind of percolating down in your strong region in south and west as well?

Bharat Mody: You have raised several questions which are in different of streams I would try to answer one-by-one.

At a macro level economy there has been lot of uproar about Swachh Bharat. As a matter of fact we all need that honestly. Today, even if in Bombay if you really want to take up a nature's call I am very doubtful whether you would find a place, and therefore when we you talk about globalization you are lagging behind in so many respects that you do not even have an infrastructure where even a nature's call can be addressed, that is one, leave aside a man, a lady can never even dream about that kind of a thing to go in a public place. Now, this is the state where we today are in which means there is tremendous scope for improvement one. Not only that paradoxically if you really see today only 38% people have toilet facility in this country which means that 62% of the people they still use open fields. Therefore at a macro level there is tremendous amount of scope, the toilet has no option in the world over for centuries as long as human race is going to be present or any creature in the world, that is why you need a toilet and therefore macroeconomics if you really see, the kind of product and business that we are into has undisputed kind of a long life, product life for the future. Question is on position vis-à-vis what the Swachh Bharat concept has been. Honestly we are not into that kind of regime because product requirement for

Swachh Bharat is very low level. Our brand and our company will not be able to directly participate into that kind of thing but that does not end there. As a matter of fact today the unorganized sector which is competing with us and trying to crackdown and bring down the prices would get diverted to the Swachh Bharat which would open up a tremendous amount of a scope of business for the organized players one, number two prime minister has given a call under social responsibility, CSR, corporate social responsibility to really spend money on building sanitation and toilets and lot of corporate are likely to fall in line with the Prime Minister's call if not now may be in the time to come and therefore when the corporate gets involved they always would really care for a better quality number one, so overall it is going to percolate to that kind of a demand which is going to as of now you see that lower end will also come to the brand like us that we are now. Another thing government also has announced about 100 smart cities which they want to promote when you really talk that kind of numbers you do not really go for a lower level you really need good toilets. So in terms of macro level there is a tremendous amount of a scope only thing it has to strike, when it will strike nobody knows about it if you ask me an honest question

whether it has reached today I would say no it has not reached us today but it does not mean that it will never reach. We are all hopeful and we always live for future and it is a need it is not that okay somebody is imposing on that, it is a need that it has to happen and you always lead a better life we need a better life therefore these has to open up if not today may be in a time to come, one day it has to open up and then the benefit would come to the industry as a whole so that was your question number one which I have answered

On the second question we have been importing a lot of things from China and these are only premium product range that we import from there; China has certain inherent advantage with China clay, besides there is some good climatic atmosphere suitable for production process and the parameters they have mastered for years. The productivity is very high in China. There is skilled labor available which is very high and therefore you generally would get almost a world class product from China in the premium range at half the price, so when the brand Cera get attached we try to compete global players with help and assistance from our Chinese partner. We have a contract manufacturing arrangement for this with about

three to four parties, our dedicated staff more than about few people they are on our rolls, they are stationed there. They try to monitor the logistics and the quality and our packing and then we market and we service and we sell from our distribution channel and we have a reasonably good margin on that part. What was your third question?

Alok Ramachandran: Third question was regarding the demand in northern region that you mentioned was slackening but is that kind of a weakness?

Bharat Mody: Demand has always been stagnant at every side. Our efforts are not in line with what the demand is or the expectation, therefore we are trying to strengthen that part. We have also revamped our entire sales team there and we hope that in next six months it should pick up.

Alok Ramachandran: But then are you seeing the same kind of weakness in your strong areas which is Southern and the Western region?

Bharat Mody: As of now no.

Alok Ramachandran: What about your expansion plans or how you have been actually improving our distribution reach in the eastern region?



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Bharat Mody: We did not have the capacity to go and take our material and therefore we were not very focused on that part but now that we have built the capacity we have been slightly aggressive also on that now. We have now opened up a new sales office. We are coming out with a large studio in Kolkata and therefore the eastern region is now been focused where we hope that we will have a better business.

Alok Ramachandran: Sir any Capex plan for this year?

Bharat Mody: We have a rolling plan of 180 Crores to 200 Crores for the next three years.

Alok Ramachandran: And how much it will be for this year?

Bharat Mody: Well, it is very difficult to really say but generally we try to fund it through internal accruals.

Alok Ramachandran: So there is no debt in terms of?

Bharat Mody: We as a policy would try to remain as far as possible a debt free company.

Alok Ramachandran: What is the amount of credit that you give to your distributors and retailers and how much percent proportion of this is actually given, how much you actually

give the number of days outstanding or credit that you give?

Bharat Mody: We generally give a credit of 45 days.

Alok Ramachandran: Is there a scope for you to reduce this?

Bharat Mody: In fact there are lot of dealers and distributors, we offer them 1.5% or 2% cash discount to those who pay us within 7 days. Quite a few dealers and retails take benefits of this. We are a cash rich company, if you really see almost about 30% of dealer distributors pay us even before 30 days and avail of cash discounts.

Moderator: Thank you. Our next question is from Ankit Jain of Equirus. Please go ahead.

Ankit Jain: Sir couple of things, one depreciation has declined on a sequential basis despite we have commissioned incremental capacity in faucets during last quarter, so sir why it is so, and what could be the run rate for depreciation going ahead?

Bharat Mody: Depreciation increase is due to the addition in the fixed asset it is not a decrease.

Ankit Jain: No sir from Q4 2015 to Q1 2016 on a sequential basis it has gone down.

Bharat Mody: But then I need to really come out with that kind of I do not have that ready figure as of now on my hand but I can answer you back, come out with your next question.

Ankit Jain: Second thing cost of RM has gone up drastically so one thing I do understand is because of higher contribution from faucets so is it like after commissioning of incremental capacity in faucets?

Bharat Mody: The loss of production if you really see the sanitary ware kiln was taken for a maintenance and there was loss of production for some days, some of the pieces we had a reduction in terms compared to the previous year therefore the raw material cost is generally you feel is slightly higher but that will be even down.

Moderator: Thank you. Our next question is from Girish Chaudhry of Spark Capital. Please go ahead.

Girish Chaudhry: Sir I have a question regarding our working capital, basically we saw in the fourth quarter we saw a stretch in working capital due to the muted scenario which has continued in the first quarter as well so how it is faring are

we seeing increase in debtor days or higher inventory days.

Bharat Mody: No as a matter of fact it is really getting smoothened out now but then only question was there has been unseasonal rain and therefore some projects got delayed and somewhere the things are happening, it only started reviving from middle of march and then it started continuing in April, May, but we have a more strong foothold in the southern part and therefore the rain which was there in June in southern parts slightly has delayed but on a year-to-year comparison if you see there is not much of a deviation on that the trend continues.

Girish Chaudhry: So the reason is because if I see between FY 2014 and FY 2015 your net working capital days has increased from 51 to 65 so the major increase has come from debtor days from 59 to 72 days so are you trying to say that it has smoothened out again.

Bharat Mody: It is smoothened out yes.

Moderator: Thank you very much. Ladies and gentlemen that was the last question I now hand the floor back to Mr. Kamlesh Kotak for closing comments. Over to you sir!



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Kamlesh Kotak: On behalf of Asian Markets I thank everyone for joining this call, a special thanks to Bharat Bhai for providing us insights about the company's business and financial performance with that we conclude the call. Thank you and have a good day.

Bharat Mody: Thank you very much everybody and Kamlesh Bhai in particular thank you for joining this and participating we would always be ready to answer any question that you have any day. Thank you so much.

Moderator: Thank you. Ladies and gentlemen with that we conclude this conference thank you for joining us and you may now disconnect your lines.