23rd August, 2016

Department of Corporate Services, Bombay Stock Exchange Limited, Phiroze Jeebhoy Towers, Dalal Street, Mumbai – 400001	Listing Department, National Stock Exchange of India Ltd, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400051

Dear Sir,

Sub: Transcripts of the Conference call.

We refer to above and hereby submit the transcripts of investor conference call, conducted on 17th August, 2016.

This is for your information and dissemination.

For Pokarna Limited

P. Vinay

Vinay Paruchuru
Company Secretary

Pokarna Limited

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POKARNA LIMITED
India's No. 1 granite company

Q1 FY17 Earnings Conference Call Transcript
August 17, 2016

Moderator: Good Day, Ladies and Gentlemen, and Welcome to the Q1 FY17 Earnings Conference Call of Pokarna 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. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you sir.

Gavin Desa: Good Day, Everyone and Welcome to Pokarna Limited's Q1FY17 Analyst and Investor Conference Call. We have with us today Mr. Gautam Jain – the Chairman and Managing Director and Mr. Paras Jain – V.P., Strategy and Chief Operating Officer. We will begin this conference call with opening remarks from the management, following which we will have the floor open for Interactive Q&A Session.

Before we begin, I would like to mention that some statements made in today's discussion maybe forward-looking in nature and a note to this effect was stated in the concall invite sent to you earlier. We trust you have had a chance to receive and go through the documents and financial performance and other details that are sent to you earlier.

Now, I would like to hand over to Mr. Paras Jain to make opening remarks on behalf of the company.

Paras K Jain: Thank you, Gavin. Good Morning, Everyone. On behalf of the Board of Directors and the Management of Pokarna Limited, we extend a very warm welcome to all of you to this Earnings Conference Call of the Company for the First Quarter of the Financial Year 2017.

Pokarna management is represented today by Chairman and Managing Director – Mr. Gautam Chand Jain and myself Paras Kumar Jain.

Before we get on to the discussion of the financial performance for the quarter, let me give a very quick introduction about ourselves: We are India's leading exporter of Granite and largest exporter of Quartz Surfaces. We offer a vast range of Granite quarried from over 10 mines and finished at two factories in Telangana. Our Granite quarries are spread over Telangana, Andhra and Tamil Nadu. Our Quartz Surfaces operations are under our wholly-owned subsidiary Pokarna Engineered Stone Limited. We market Quartz Surfaces under the brand "Quantra". We also possess the best of the manufacturing technologies from processing granite and manufacturing engineered surfaces, more particularly BRETONSTONE technology for Quartz Surfaces manufacturing and we are the only company currently in India to use this technology. Our brand Quantra stand synonym for best quality product and design. We export to over 50 countries. We also Manufacture and Retail Apparel under the brand "STANZA".

With these brief words of introduction, I would like to take you through some of our Key Operational Highlights for the quarter: The Financial Results for the quarter have been approved by the board and have been uploaded to the stock exchanges and company's website. On the stock exchanges and the company's website, we have also uploaded the 'Earnings Presentation' and I intend to walk you through some of the key highlights of this presentation: Revenue for the quarter stood at Rs.90 crore as against Rs.96 crore, reported during the corresponding period last year, degrowth of 6%. Primary reason for revenue contraction being temporary reduction of production in some quarries owing to pre-exploration and development activity, combined with weaker currency advantage of competing market player. However, we were able to improve our overall profitability and margins despite the slight decline in top line. EBITDA for the quarter stood at Rs.32 crore as against Rs.30 crore generated during Q1 FY'16, representing a growth of 8%. EBITDA margins for the Quartz business for the quarter stood at 47%. PAT for the quarter stood at Rs.16 crore as against Rs.12 crore, higher by 32%. We recognize that many of our investors want to better understand the short-term headwinds as well as strategy we have put in place to achieve top line growth in next 12 to 24-months. Therefore, I will take a few minutes extra to detail our short, medium, longer business strategies given the broader market dynamics we are now seeing.

Coming to Granite: Strength of captive quarries in Granite is a very important USP we have, and this backward integrated business model results in higher margin and control of our raw materials. We see temporary setback in operationalizing few quarries owing to regulatory delays in getting leases and environmental clearances. Headwinds of competition from Brazilian exports who are selling in record quantities to the US but at a low price and giving extended payment terms would continue for some more time. Efforts are being made to operationalize at least one new quarry during financial year 2017.

Coming to Apparel: It is clear that the Apparel business in which we anticipated and invested hasn't paid yet. Apparel Manufacturing and Retailing business of ours have been through several iterations in its model to make it work but gestation period seems to be longer than what we originally envisaged. We are seriously reviewing our Apparel Manufacturing and Retailing operations. We are committed to improving operating performance of this business. Several cost savings initiatives are underway to reduce losses and become operationally positive.

Coming to Quartz: The roadmap we establish back in 2006 to evolve our business from one dominated by Granite to one offering a superior natural stone solution, presented us with clear choices that had to be made about where and when to invest our resources to maximize the growth.

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Specifically, we made the strategic decision in 2006 to invest heavily into Engineered Stone business. There can be no doubt that our focus on investing in Engineered Stone was the right decision for our business. Our growth in Engineered Stone has continued to outperform the industry rates and has placed us in a very solid competitive position relative to our principal competitors. Looking ahead, we are majorly focused on our faster growing business Quartz. Based on the strong growth we experienced in Quartz in recent past, we are very optimistic about its future. Our long-term strategy in Quartz business is to improve capacity utilization, improve product mix and continue to develop new products for better realization, focus on key markets of US, Europe and India as we see significant portion of our growth will come from continued penetration in these markets.

Building Brand Awareness: We intend to strengthen Quantra brand primarily through continued investment in R&D, marketing activities and establishment of long-term relationships with distribution players in the key markets and continue to strengthen relationship with private label manufacturers.

We are also monitoring present and projected demand picture across the markets for Engineered Stone to ascertain feasibility of undergoing capacity expansion. In the past, we have chosen a path to be best to the market versus the first to the market and that strategy has served us well with keeping a balance between our long-term strategy and short-term market dynamics. Today, we are relatively large and organized Indian company to have bouquet of Granite and Quartz offering and we are well positioned to become an important player in the international markets. Pokarna sits in a very unique and highly strategic position. We reach customers in more than 50-countries offering both Granite and Quartz Surfaces with the legacy of 25-years. This position enables us to address trends at a scale that is on par with large stone companies in the world. While most of the business players today are familiar with our brand, we believe that in long-term there is an opportunity to make Quantra as a Consumer-centric brand and efforts are being made in the direction. We remain extremely confident in the businesses we operate and the steps we are taking to accelerate growth.

That concludes our opening remarks. Trust all of you must have gone through the Investor documents circulated by us earlier. We would be happy to answer your questions now. Thank you.

Moderator: Thank you very much. The first question is from the line of Dhruv Bhimrajka from Crescita Investment. Please go ahead.

Dhruv Bhimrajka: My question revolves around the EBITDA margin. So, in FY15 we had total EBITDA margins of around 26% which had a huge jump to 33.7% in FY16. So going forward can we expect a similar kind of margins or it should normalize now?

Paras K Jain: We believe that EBITDA margins would be in the similar range, we do not expect additions to happen to the margins what you have seen in the recent past, but our focus would be to maintain our margins within the range of what you have seen in the recent past.

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Dhruv Bhimrajka: Like it should be sustainable going forward if I am not wrong…?

Paras K Jain: That is what our efforts are on.

Dhruv Bhimrajka: If you could give me capacity utilizations for your factory for both the Granites and Quartz?

Paras K Jain: As a policy, we do not share the capacity utilization rates, but I can tell you that at both Granite and Quartz, we do have a scope to improve the utilizations from where we are currently.

Dhruv Bhimrajka: For FY16 your full year tax payment was 17%. So this year and next year what tax rates can we expect?

Paras K Jain: It will more or less remain in the same bracket I think, because the Engineered Stone business operates in SEZ, it has a different tax bracket and also we are under MAT currently there; I think you should look at between 17% to 20% on a consolidated basis.

Dhruv Bhimrajka: Any guidance for consolidated revenues for this year and the next any highlight if you can give?

Paras K Jain: As I said in the beginning also that, we are currently not giving any guidance on the top line or the bottom line, but we are confident that the business where we operate are poised for a better growth to come.

Dhruv Bhimrajka: One question like for this quarter in comparison to last year's Q1, we see a dramatic fall in Granite like last year Q1 we had Granite sales of around Rs.51 crore which has dropped down to Rs.35 crore for this quarter and similarly we also see Quartz now normalizing by 20% growth for Q1 year-on-year. So can this fall in Granites be stopped or how are we going to rationalize it going forward?

Gautam C Jain: Yes, the Granite business basically is a different operation because the revenue also comes from quarrying operations and in the quarrying operations many times there is a development phase within the quarry or various quarries from pit to pit. So many times you see that there is no revenue coming from those areas where there is a development happening. So one of the reasons for this fall is the quarrying operations were under development phase in more than two quarries and also for the finished products, there was a slowdown in the American market we mainly operate and this was due to the Brazilian currency depreciation. So the Brazilian product became very inexpensive compared to the present pricing it was. So that was one of the reasons that the American market stopped buying Indian Granite to the levels of what they were sourcing earlier because they were flooded with a lot of Brazilian materials. So, I think this is a temporary phenomena and this is seasonal in terms of development because during the rainy season, again, there will be lull for production happening in the quarries. So, in my opinion, going forward, this should be made up more or less in the whole year. Also, the market for Granite is little flat compared to the demand for Quartz, that is another reason that you see the fall in the Granite business.

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Moderator: The next question is from the line of Rukun Tarachandani from Kotak Asset Management. Please go ahead.

Rukun Tarachandani: So on the Granite division, can you elaborate a bit on the development phase that you are talking about, is this a delay on your end or are there regulatory hurdles that are stopping you to increase the production?

Gautam C Jain: No, development means no delay from our end or from regulatory. Development is the area which is overburdened and we keep moving the quarrying operations to newer areas within the quarry. So development means when we remove the overburden from a particular area, that is actually called development phase in the quarry. In addition to that, yes, there are regulatory hurdles sometimes because every year we have to renew our environment clearances, so sometimes the government agencies take more time than envisaged and therefore production is restricted. There are sometimes issue of road permits from the government department for various reasons for policy changes and all. So many different hurdles come in the Granite quarrying operations. So there are various reasons and in this particular quarter that some areas we were doing development, some areas there were environmental inspections happening, some areas there were no road permits available from the government side for some change in the regulatory reasons. So, that is where all the various reasons. But development is not connected with this kind of reasons.

Rukun Tarachandani: So just to clarify, as of now there is no regulatory overhang on the operations?

Gautam C Jain: Nil.

Rukun Tarachandani: On the Quartz division, can you explain what is the competitive advantage that you have vis-à-vis the bigger players like Caesarstone and vis-à-vis players from China?

Gautam C Jain: We cannot compare ourselves with the Chinese technology and the products which is absolutely different from the BRETONSTONE plant manufacturing companies of BRETONSTONE. Caesarstone, the difference between us and them is of course Caesarstone is a very established company but then they are located in Israel and US where they do not have the Quartz deposits that we have in India. That is the major difference. The Chinese products again cannot produce products that we can produce. There the look of the product is totally different; the performance of the product is totally different. That is one of the reasons where our realization is much better than the Chinese Quartz slabs in the market. But when you compare with Caesarstone they have a distinct advantage of being old player, established there, and having their own distribution network throughout the world, not through various distributors' the way do we do. So in spite of that, if you see our EBITDA is comparative with any other player in the world today.

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Rukun Tarachandani: On the BRETONSTONE technology, are there players from China who are manufacturing, using that technology and is there a restriction by the technology provider that only these many players will be allowed to use the technology or anything of that sort that prevents competition?

Gautam C Jain: Normally, as a principle, the BRETON, Italy does not give this technology to any Chinese players and the Chinese players are self-developed concept of making similar looking project. There is a restriction in the sense as a principle, BRETON does not encourage more than one producer in a country as a normal practice apart from Italy where originally they had three players, but now except Italy and US more or less every country they have only one player, and it all depends on individual agreement that every company does in the beginning, the way that we have done. Though originally we are the only company and we hope to continue to be exclusive player for BRETON in this part of the world.

Moderator: The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Just first picking up from the previous answer that you gave on margins, on the Quartz side if you could give some idea on the margins because variation has been quite big between the last two-three quarters and a couple of years. So the margin that we should look at is 41% margin which was reported last year and that is sustainable or any other comment that you have?

Gautam C Jain: The basic price differences is because of the different products we sell. We manufacture three different thicknesses – 12mm, 20mm and 30mm. So depends on which production that we undertake during the three months of the quarter and also depends on the quality and design of the product that we make, there is a price difference between different thicknesses and also different products that we make. Price ratio will also give the same range of profitability that you see in the past because there cannot be fixed number at any given time, because the production is made to order. When we accept the orders, we do not look at what thickness a customer wants or what design a customer wants. So this will always vary in the same ratio as what you see today because again the thicknesses and designs will make the difference of the margins.

Pritesh Chheda: So do you see a case that the margins can actually improve further if the product mix becomes richer?

Gautam C Jain: There is a possibility of improvement, subject to little more efficiency of production and efficiencies will depend on again the orders because when we make a bigger run, the efficiencies are better in terms of productivity and that will give us some additional cushion of more margin but then if the runs are smaller, the efficiencies can even come down where again the margins can be little affected.

Pritesh Chheda: You commented on better output possibility of the current machine, so we are at about Rs.52-53 crore of revenue run rate in Quartz over the last three quarters. This number can move to what kind of a number over the next three-four quarters when you fully utilize the machine?

Gautam C Jain: In my opinion, we are working on some balancing equipment on the existing machine and that may give us an additional cushion of 5% to 10% efficiency but it will all again depend on the customer orders and the thicknesses and the color that we make. But this balancing equipment installation is going to happen by December and we will be able to see some improvement in the efficiencies after that.

Pritesh Chheda: So if the same output with a better color comes out or better thickness comes out, then obviously that 5% to 10% is just balancing related, but if you make better color and better thickness, the overall value of sales improve substantially, right?

Gautam C Jain: It is true, but it cannot be predicted today, it all depends on the orders.

Pritesh Chheda: Ok and my second question is on the CAPEX. When would we see expansion on the Quartz side?

Gautam C Jain: Right now we are in the process of evaluating the cost and the size of the expansion and everything. So right now it is little premature to comment. I hope once we close this we will be coming to you to share our final decision and the cost involved and production capacities we propose to add. But unfortunately, I would not be able to give you any more information today.

Pritesh Chheda: On the Granite side, do you now incrementally see any downside risk to the revenue because revenues have shrunk from Rs.50 crore to Rs.30 crore on a quarterly basis or this is kind of bottomed out?

Gautam C Jain: I cannot say bottomed out definitely but there is a possibility of growth as well as degrowth in every quarter because this concept of granite will continue because we are also into backward integration as I told you that we are into quarrying operations and Granite will remain a product of choice for outdoor use always. So in Granite also we process different colors and different thicknesses. So the realization depends on the product mix that we make and the shipments that happen based on the customers request dates or shipments. So I do not think there is going to be any more bottoming out from this number, but honesty, too difficult to predict.

Moderator: The next question is from the line of Srinath V from Bellwether Capital. Please go ahead.

Srinath V: Picking up on the similar line of questioning, given that we have been doing about Rs.50 crore plus in Quartz over the last four quarters and we have about 10% efficiency gains and the process of capacity expansion would be a time consuming process, would we be looking for a kind of disproportionate increase in capacity on a next group of CAPEX given that the business has been very profitable of late?

Gautam C Jain: Yes, we will go little conservatively, we will not go to the size of the demand in the market because we cannot do all things at a time, we do not want to raise too much of debt, at the same time we do not want to overflood the market but it will depend gradually based on the demand that will be generated from our customers and the new markets that we will penetrate.

Srinath V: I just wanted to understand process of debt reduction given that we have not been doing much CAPEX. Could you please share the debt numbers for Q1 and also would like to know the progress of the foreign loan conversion of our current rupee loans?

Gautam C Jain: You are talking about the consolidated number, today the total debt is of about Rs.206 crore on both Granite as well as the Quartz plants.

Srinath V: How much debt did we repay in Q1 sir?

Paras K Jain: There is not much between March and June.

Gautam C Jain: As far as the conversion of our existing loan to foreign currency loan, the application has already been made to our bankers and we are awaiting their consent for that. So, I do not think we should have a problem, because we are more or less focusing on export business, so we have natural hedge available. we have already spoken to the bankers also and we are awaiting the consent.

Srinath V: This deal would be for the whole Rs.206 crore or is it part and the second follow up on this is could you please share the current interest rates on these kind of loans that we have in rupee and also what are the kind of market rates that you are seeing in the dollar market?

Paras K Jain: LIBOR plus 350 basis points.

Srinath V: Current loan sir, what would the pricing be?

Gautam C Jain: It is about 11.5%.

Paras K Jain: We have different loans at different rate of interest. So they all range between 11% to 14% in the rupee basis and the ECB what we have is about LIBOR plus 350 basis points and we believe that whatever portion of the loans we convert could be more or less on the same ranges of the LIBOR plus 350 basis points.

Srinath V: In this Rs.206 crore, how much do we plan to convert very broadly without getting into specifics?

Gautam C Jain: About Rs.100 crore.

Srinath V: Just wanted to understand in the Quartz business, how much of the sale comes from our own brand and how much of the sale comes from contract manufacturing for these large OEs in US or Europe?

Paras K Jain: Basically, as I said in the beginning, the Quantra has just started its journey of becoming a branded player. So currently substantial revenue I should say that more than 80% come from the private label manufacturing.

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Srinath V: How does the distribution work, can you help us understand how would your distribute Pokarna branded product versus a contract manufactured product sir?

Paras K Jain: In contract manufacturing, actually our role in distribution is very limited because we have contracts with large stone companies or building material companies and we make and brand it for them and just ship them out of our place. So the distribution and the logistics part is their obligation. When it comes to Quantra distribution, we have been in Granite business for more than 25-years now and over a period of time we have built up a large network of relationship with large stone distributors, super distributors and large companies. So when somebody is part of Quantra as a exclusive distributor, typically on an average every large customers whom we have they have at least 5 to 10 locations in different places in the US. Then they in turn distribute through their local locations within the US. So we do not do the last mile connectivity or branding, we try to piggyback on the distributor, because he has got the local knowledge and the strength within that territory.

Srinath V: I am guessing the margins of the own brands are somewhat higher than the contract manufacturing. Would that be a fair assumption to make sir?

Paras K Jain: I think more or less margins are same at the moment, because the brand is at the beginning of its journey.

Srinath V: I just want to understand the scope for our product in the Indian market given that this is a pretty unheard of product and also luxury housing at the same time has seen a lot of gains in the last year or a couple of years. How does this product sit in the Indian market – have you ever supplied to anybody in India?

Gautam C Jain: Yes, we have done some large projects with our products in Indian market but unfortunately right now we operate from special economic zone where the tax component is very high because there is a minimum value cap tax on the domestic market because we operate in SEZ and the market definitely has a very good future and we also have future plans of penetrating the domestic market and creating brand and product understanding in the domestic market too, but right now as we told you that we almost operate to full capacity and we have committed export orders on hand so there is not much of a scope to penetrate heavily into the domestic market.

Moderator: The next question is from the line of Ashutosh Garud from Reliance Wealth. Please go ahead.

Ashutosh Garud: I just wanted to check the run rate of Rs.50 crore which have been there for last 4-5-quarters now. So when you have mentioned that there are significant capacity, we are not at 100%, so what is the exact reason, because we understand there is a lot of demand for this product speaking about Quartz segment, why we are not able to take the run rate at a higher level?

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Gautam C Jain: Unfortunately, in this product when we talk of full capacity as per the manufacturer numbers it is impossible to get that number. In my opinion and in the experience that we see worldwide in this product manufacturing, the optimum capacity utilizations can go up to almost 80% where we are almost close to that number. So there is not much of a scope. It will again depend on the product run; the smaller size of the run we take, the capacity utilization comes down a little because there is cleanings time which consumes a big time of the day. Though we work all the three shifts, 24 hours, all 365-days, but unfortunately, I do not think there is a big scope of improving on this number, there is a possibility, it all depends on the customer orders and the quantum of the run that we make of each color.

Ashutosh Garud: So the next point of growth would come by the balancing of equipment which you mentioned earlier, right?

Gautam C Jain: Yes, that will be a small run, of course it is not be going to be a very substantial growth because we are not going to add big capacity on the production numbers.

Ashutosh Garud: What was the last CAPEX figure which we did and when was it?

Gautam C Jain: No, basically the major CAPEX happened only in the beginning and small CAPEX we keep doing for some requirements that come in the way but the number is not really to talk about also, it will be about in the range of Rs.5 crore.

Ashutosh Garud: When was the major CAPEX and what was the quantum of the same?

Paras K Jain: The major CAPEX in Quartz happened only when the plant was set up all the way in 2006 when we started the plant which was operationalized in 2009. Post that we have not done any large CAPEX in Quartz. This is the first time Mr. Jain said that we are evaluating the possibility of expanding and that would take some time to answer what could be the cost of the CAPEX.

Ashutosh Garud: Because If I remember correctly, your fixed assets have gone up in FY10. So there was no CAPEX in FY10?

Ashutosh Garud: So this would be in Granite you mean to say?

Gautam C Jain: Yes, Granite, Apparel, other businesses also there could be a minor addition which are happening.

Moderator: The next question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta: Sir, if I look at March 2016 balance sheet, in the standalone balance sheet there is work-in progress of Rs.13-odd crore. Because we are not doing any CAPEX in the standalone business at least can you tell me what that is?

Gautam C Jain: This expansion that we have undertaken in the quarries as well as the Granite factories today. We have procured some additional equipment in

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the Granite factory as well as in the quarries. So what you see, the work-in progress relates to those machines which have at that time were not installed.

Viraj Mehta: But we have seen negative growth in that business but we are still incurring more CAPEX. Is that to secure our current run rate or will that increase our capacity in Granites going forward?

Gautam C Jain: It will increase our capacity definitely and you cannot see the results when we invest, you have to wait for the results for those.

Viraj Mehta: On the "STANZA" business that we have, if I look at cumulatively over last 3-4-years, we have lost more than Rs.35-40-odd crore in that business. What is the management thinking for the long-term in this business – do we see breakeven even this quarter we have lost a couple of crore at EBIT level and sales which are similar a couple of crore, so basically on sales of a couple of crore we are losing a couple of crore every quarter. As an outsider, we do not understand the penchant of the management for this business especially when the other two businesses are so much more profitable and so much more cash flow positive. Just wanted to get your sense on this business?

Gautam C Jain: You cannot expect the investments happened in Apparel business to give us the revenues that we are getting in Quartz and Granite business unfortunately, but we know that this is a matter of concern for us and what you see is unfortunately the major amount of loss is from depreciation and interest. So what we have now done is we are trying to repay all the debt so the interest burden comes down. Unfortunately, the depreciation part will continue because the investment what has happened and as per the accounting norms, depreciation is being debited. So we are trying to see how we can get into no profit first, no loss first and once we get into no loss situation our endeavor will be to find out what were the other alternates to utilize the investment that have happened. Right now, we do not find any ready customer even if you want to dispose of the unit to get us our returns on the investment. So we are trying to see how to get it out of the losses first and you will see that every quarter the losses will be coming down now because we have closed down non-remunerative retail stores

Viraj Mehta: Out of the 8-stores, how many are loss-making?

Gautam C Jain: Because what we are appropriating is to the retail stores instead of through the factory. So there is actually no loss coming in the retail stores right now, because most of the retail stores where we were incurring losses have been closed down. So right now the accounting is under one head of apparels, where we sell from factory to the retail stores with a mark-up of 35% and actually that is why the loss is now appropriated towards retail stores, but when we see in totality the loss is mainly because of the depreciation in the factory.

Moderator: The next question is from the line of Deepak Agrawal from Impetus Advisors. Please go ahead.

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Deepak Agrawal: For Quartz do we have our own quarries or do we get it from outside quarries?

Gautam C Jain: Right now, we outsource the Quartz with a company with agreement for total supply but going down the line we plan to do our own Quartz quarrying and crushing also. But this is little early to talk about that because we have made applications for Quartz deposits to the government and maybe going down the line when we find it right, we will probably get into the quarrying also.

Deepak Agrawal: What is the upfront investment required for getting this quarries and making them operational also?

Gautam C Jain: It depends on the location of the deposit, equipment that we deploy and only quarrying is not one part, the other part is also the crushing and in our opinion we will require about Rs.40 crore or so for both the operations like quarrying as well as crushing.

Deepak Agrawal: The current agreement that we have for sourcing this from outside, is this a long-term thing or what?

Gautam C Jain: They have been doing this from day one to now and they propose to even continue or increase in the future. So right now it is a win-win situation because they are the experts in crushing and we do not want to get into other position today. So, it is a win-win situation for both of us and it is a long-term agreement they have with us.

Moderator: The next question is from the line of Ravi Purohit from Securities Investment Management Private Ltd. Please go ahead.

Ravi Purohit: Can you share some thoughts on this Engineered Stone business globally, what is the kind of market size we are looking at in Europe, India, USA and where do you see yourselves in the next three to four years? Also, how does the business really operate, in the sense we have read various reports, various documents that the cost to you for the Engineered Stone would be let us say $5 to 10 but the cost to the end consumer could be like 3x or 4x of that, so how does that part of the business work and how do we plan to capture that valuation if at all which is what Caesarstone has done and which is why the realizations have gone up significantly?

Paras K Jain: Ravi, today the global countertop market material is about $81 billion in size as per the last Freedonia Report and Quartz is about 10% of it, that means about on the countertop segment about $8 billion is the opportunity. What you are saying in terms of the installation cost to the end consumer, in the US the market operates differently, the numbers what you see on the net are typically the numbers on the installed basis which includes the fabrication cost, transportation cost and the installation cost. If you look at the growth and journey of Caesarstone from '87 to 2016, I think it is only last three-four years that they have gone into that last mile in terms of establishing a brand where they are looking at last mile connectivity. I do not think that we are at that level of growth or at the journey and secondly, we do not want to be at the last mile solution in the US market. Probably

	that could be a right solution when we come to the home market because you have the understanding of the market, you understand the consumer better than what you understand the consumer in the US market. So, I think the strategy of going to the last mile on installation basis and getting a realization of $80 to $100 is not on our cards in the short-term now.
Ravi Purohit:	If I look at the balance sheet reported for 31st March 2016, the long-term and the short-term borrowings mentioned there was about Rs.244-245 crore and you mentioned as of June we had like Rs.206 crore. So we paid out Rs.40-odd crore during this period or what is the total debt outstanding long-term working capital, everything, all put together?
Paras K Jain:	When we said Rs. 206 CR, what we meant was term loans thereby excluding working capital. Consolidated term loan position between 31st March 2016 and 30th June 2016 remains almost the same while. Term loan as at 30th June 2015 stood at Rs. 241 cr while it was Rs. 206 cr as at 30th June 2016.
Ravi Purohit:	As of June we have about Rs.206 crore of debt outstanding?
Paras K Jain:	Yes.
Ravi Purohit:	The debentures which basically were issued by Engineered Stone to Pokarna Limited which is the holding company. Those have been converted into share. Is that understanding correct?
Paras K Jain:	You are right.
Moderator:	The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
Sachin Kasera:	A couple of questions on Granite. If you could give us some sense what is the type of pricing pressure the market has seen because of the Brazilian people becoming aggressive? Secondly, has that condition now stabilized because from what we understand is the Brazil currency has now appreciated quite a bit from the lows. I also understand some ban in Telangana on the mining. So have those activities resulted in your production returning to normal?
Gautam C Jain:	There was no ban of mining in Telangana actually. There was a stoppage of issuing road permits for sometime because of the clarity, there is a new levy which has come into play in Granite, it is called District Mineral Development Fund. So there was no clarity that what will be the effective date and therefore the department in between stopped issuing permits till the clarity came in. To your Brazilian competition question, basically, our major exports are into American market and there is a very-very large impact of Brazilian currency and products into American market available at a much cheaper price. So the major impact is because of that actually because all our distributors were flooded with Brazilian materials which was shipped by Brazilian manufacturers on long-term credits at a cheaper price. So there was no warehousing facility available with these customers and also they found more opportunity to make little extra buck out of this

opportunity. So they had almost reduced and slowed down all other Granites from the world actually, not only the Indian Granites.

Sachin Kasera: But have we also had to reduce prices to compete with Brazilian prices or it is we got ….

Gautam C Jain: We had to reduce prices definitely because we cannot come to a standstill and wherever there was an opportunity to reduce the prices and continue the business, somewhere we have done that also.

Paras K Jain: But we have not got into the rat race of reducing the prices for everything.

Sachin Kasera: On an average across the portfolio would it be fair to assume we would have reduced prices by 5% to 10%?

Gautam C Jain: Yes, 5% to 10%.

Sachin Kasera: If you could quantify what would have been the loss in volumes because of the permit issue that you mentioned sir?

Gautam C Jain: There is no loss; there is a stoppage of shipments. Shipments happened in the current quarter, because shipments were held up because of the permits for some time but that turnover you will see in the next quarter.

Paras K Jain: It was a temporary adjustment and that only got escalated or they move to the next quarter, it is nothing to do with the stoppage actually.

Sachin Kasera: My second question regarding sir, what is the planned CAPEX for both the units – Quartz and Granite for FY17 and in that case what is the type of further debt reduction that we can see from Rs.206 crore as on June in the remaining part of the financial year?

Gautam C Jain: As I already told you, right now the planned CAPEX cannot be quantified because we are still a midst of discussions with Breton and other equipments to be installed for the new plant. So right now it is too early to talk about the planned CAPEX.

Sachin Kasera: So in case we do not go ahead with this new line for Quartz, can we see a further reduction in the debt in the remaining three quarters?

Gautam C Jain: Yes, if there is no investment, the debt will come down.

Paras K Jain: The cash will be moved to the best use possible.

Sachin Kasera: There is no major CAPEX in Granite also in the current financial year?

Gautam C Jain: There was CAPEX already which we have bought some quarrying equipment's as well as upgrading our existing plants which are now almost 20-years old. So that has already happened. There is nothing new which is going to happen now.

Sachin Kasera: This Rs.17 crore towards CDR, have you already paid to the bank in terms of cash outflow and have you got all the approvals for that because I would believe one of the key things that is required if we were to go ahead with the new CAPEX, right?

Gautam C Jain: Yes-yes, we have already got letters from two banks, but the third bank is supposed to release the letter in a day or two because it is just their local internal delay for various reasons. But, as far as we are concerned we have been given clearance from our lead bank as well as the other bank and finally it is also awaiting clearance at the CDR cell. We hope this week is what is promised by CDR cell as well as other banks that they altogether will be sending the letter. But our lead bank and other bank has already sent us the letter. But ultimately the final letter has to come from CDR cell. We are expecting this week to happen.

Paras K Jain: To answer your other part of the question, the total amount of Rs.17.51 crore, around Rs.1.55 is to be paid in cash as and when the letters and the approvals and the related documentation happens and for the balance Rs.16 crore as we mentioned in our notes to the results in the past we are proposing to issue the non-convertible debentures to the banks on that.

Sachin Kasera: What will be the tenure and the rate of interest?

Paras K Jain: That could be about 11% is the interest on that and tenure would be around three years.

Sachin Kasera: One-time redemption opportunity

Gautam C Jain: No, it is not one-time redemption; it will be redemption in three year full installments.

Sachin Kasera: Little puzzle on Granite, do you see some of the other companies which are listed entities, their numbers for the quarter, they seem to have reported reasonably better numbers compared to the March quarter whereas our performance for the June quarter is lower compared to March?

Gautam C Jain: Basically our business model is very different from all other companies that you will see. There is no company with our business model of backward and forward integration, that is quarrying, processing and marketing. So what we operate is in a different business model, that is why if you see the final bottom line will be different from all others. The main reason is because the revenues that come from quarrying are more profitable. They also operate into different markets. We operate mostly into American markets from day one.

Moderator: The next question is from the line of Siddharth Bhattacharya from Suyash Advisor. Please go ahead.

S Bhattacharya: I wanted to get understanding on three things; firstly r, did I hear you right when you said that Granite revenues for the full year would return to normal levels versus what we find in first quarter?

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Gautam C Jain: Yes.

S Bhattacharya: Full year numbers would still be in the range you did last year?

Gautam C Jain: Yes.

S Bhattacharya: Second issue is you spoke about CAPEX taking time and you are operating in the Quartz business at near full utilization levels. How exactly do you manage growth in the interim – you spoke about product mix but would the growth therefore be moderate or how exactly to think about it, I assume you would take at least 12 to 18 months to add capacity?

Gautam C Jain: The balancing equipment will bring in some production efficiencies but then the growth will not be as what you see earlier when the capacity utilization was below our targeted capacity. Now, we are almost on full capacity utilization. The growth will only happen on the efficiencies and improvement in the productivity.

S Bhattacharya: So till the new capacity comes on stream, one should presume reasonably moderate growth, is that a correct assessment?

Gautam C Jain: Yes.

S Bhattacharya: The Brazilian currency issue, do you think it is resolved now and you are able to see ahead, how exactly to think about that?

Gautam C Jain: But now already the price deduction has been absorbed in the market and currency depreciation has been absorbed. So, going down it will again depend how they sell their products in the future because Brazil is now with overcapacity of Granite production. So for them US is the closest market and the best market and also customers do want to work with Brazilian colors for the very simple reason that they have been selling those products at a very high price earlier and they get a better margin on those products today because of price coming down. So it will take some time but eventually Granite is fortunately natural material. What we have in India is only in India and what they have in Brazil is only with Brazil. So it again depends on how the consumers, the architects, the specifiers and the builders use the colors. Indian colors are dark colors in nature which are not actually available plenty in Brazil. We continue to have our colors play important role in the American market.

Moderator: The next question is from the line of Rishi Ved from Value Yaan. Please go ahead.

Rishi Ved: This is again regarding the CAPEX. You mentioned that you will expect CDR exit in the next week or so. Post that once you make the decision for investment, how long do you think it will take from that decision to commencement of production?

Gautam C Jain: Normally, it should take two years of time because the machinery supply BRETON will take minimum one year and erection takes about six months minimum. So we assume that from the day of finalization it should take about two years.

Rishi Ved: A follow-up question; as part of land requirement, do you already have that or would you be looking for kind of getting land for the new factory as well?

Gautam C Jain: We have already shortlisted few locations but again this is too early to talk about it. Land is not a big problem fortunately, land is the smallest thing in this whole process.

Moderator: The next question is from the line of Saurabh Jain from Astute Investment Management. Please go ahead.

Saurabh Jain: Just a few questions: Just wanted to know for the quarries that we own for Granite are these owned by us and what is the kind of ...?

Gautam C Jain: It is a mix of owned as well as leased quarries but fortunately in Granite as per the mining norms, the lease is always for 20-years, extendable for two more renewals which takes it to almost 60-years. So I do not think we have to worry about whether it is a owned quarry or a leased quarry. As long as it is legal quarrying operations with all the clearances from the government which we have, there is not an issue of lease of the quarry.

Saurabh Jain: Any major quarries where the lease maybe expiring in say the next 10-years to 15-years?

Gautam C Jain: No, it is a long way. Even if it expires in next 10-years, the renewal is automatic.

Saurabh Jain: Typically, what is the renewal fees that you pay or is there license fees also you pay every year?

Gautam C Jain: There is two kinds of fees that we pay – one is we call dead rent, the other one is the royalty on the excavation of the materials; royalty depends on how much material is excavated and depending on the color of the quarry, there is a different royalty fixed by the state government.

Saurabh Jain: If you could give the fixed amount?

Gautam C Jain: There are different colors for each color of the Granite that is extracted and this is not a very big number that you need to worry about. This is a government royalty which is fixed by the government every year, in fact, there is increment of some few hundred rupees on cubic meters.

Saurabh Jain: For FY16 for example both these put together what could have been the royalty for us that was paid to the government?

Gautam C Jain: Royalty is a very small number frankly, you do not need to even worry, I will give you the number, because I do not have off-hand, number available but it is not really a big number that you have to worry about.

Saurabh Jain: Would this be in single digit crore or...?

Gautam C Jain:	In the whole of the Granite operations we paid about Rs.10 crore of royalty for the whole year.
Saurabh Jain:	For Quartz would this also be something?
Gautam C Jain:	Quartz we do not pay any royalty because it is paid by the company which excavates the Quartz and supply it through us.
Saurabh Jain:	We do own some quarries also for Quartz, right?
Gautam C Jain:	We have made application for some quarries of Quartz but they are not yet activated because there is a process of going through the environment clearance and mining leases. So, there is a time which the mining department takes to clear them. So we are in the process of activating few Quartz quarries.
Saurabh Jain:	Like we faced competition from Brazil in Granite, in Quartz, can Brazil be a competitor or any other countries where you could see a threat from?
Gautam C Jain:	Basically the Quartz deposits are more in Turkey and India. Brazil also has Quartz deposit but it is too much land lock deposits so the transportation cost is too high to ship them out of the area of deposits. We are fortunately in a proper situation compared to all other players in the world for the raw material of cost.
Saurabh Jain:	But you do not see any immediate threat over there?
Gautam C Jain:	No we don't.
Moderator:	Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to the management for closing comments.
Paras K Jain:	We thank you for participating in this call and we look forward to talk to you again.

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