Kajaria Ceramics

Q2FY12 Conference Call Transcript

21 October, 2011

Moderator:

Ladies and gentlemen, good evening and welcome to the Q2 FY12 Results call of Kajaria Ceramics Limited hosted by Emkay Global Financial Services. We have with us today, Mr. Ashok Kajaria – Chairman and Managing Director and Mr. Sanjeev Agarwal – Vice President, Finance and Corporate Strategy. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing '*' and '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Rohan Gupta – Senior Research Analyst of Emkay Global. Thank you. And over to you, sir.

Rohan Gupta:

Thank you, Terence. Good evening ladies and gentlemen. On behalf of Emkay Global Financial Services I welcome all the participants who have logged in for the conference call of Kajaria Ceramics to discuss their Q2 FY12 Results. Mr. Ashok Kajaria and Mr. Sanjeev Agarwal have joined us. Good evening, sir. First, I will request you that if you can brief us about Q2 FY12 Results and performance and can give us also some industry update and then we can follow it up by Q&A session. Is it okay, sir?

Ashok Kajaria:

Yeah, fine.

Rohan Gupta:

Over to you, sir. Please go ahead.

Question and Answer Session

Ashok Kajaria:

Thanks, Rohan. First of all, I would like to welcome all the participants to this conference. And just to tell them that this is the first time Kajaria is having this conference, so any shortcomings please pardon us for that but we would like to be as transparent and open as possible.

So, let me start with the industry scenario. The industry scenario in India is positive and all the leading ceramic tile industry players such as Johnson, Asian, Somany, they are growing at 20-25% and Kajaria has grown at 41% in the first six months of the year in sales. All housing related industries such as Hindustan Sanitaryware, Jaguar, Asian Paints are growing at 30% plus. And all the top four brands like Kajaria, Hindustan Sanitary, Jaguar, Asian Paints, they have a very strong retail presence because of the very strong dealer network. Coming back to the housing scenario, since all the four companies are selling 70% of the products in retail. We have a second sale which is called the "Project Sales. Now, Project Sales are of two kinds; one is to the builder who is making one or two apartment projects, he has no problems today and he had no problems even in the tough year of 2008. Second is the top builders who have not gone to the public, such as BPTP which is based at Delhi, Magarpatta which is based at Pune, Jain Builders which is based at Pune, Eldeco, which is based in UP, Purvankara which is based in Bangalore. They are all doing very, very well and have a lot of projects in hand.

Third, the government departments such as (MES) that is Military Engineering Services, (AWHO) Army Welfare Housing Organization, hospitals, schools, they all have a lot of work and there is a very positive scenario as far as that is concerned. But the builders who came in the public Issue, they are having certain problems which by and large people talk about in the investor community.

Next, the Tile industry is moving towards value-added products, because the cost of projects have gone up, the selling prices have gone up of late of the last five years, and because of the foreign influence also has moved towards value-added products in the last five years. And which is as a result what was being imported is being produced domestically, be it ceramic, and be it polished vitrified or be it glazed vitrified.

On the cost side, definitely, there are some pressures; the raw material costs have gone up this year, the fuel prices have gone up because gas is one of main cost constituent. Transportation costs have gone up because of increase in diesel. Interest costs have gone up because as we are all aware, Reserve Bank has raised their basic rates by almost 12 times and there is interest pressure also. And the latest is the dollar scenario where the dollar has gone up from Rs. 45 to almost Rs. 49-50. All this has put definitely a pressure on costs. Some of the costs we are able to pass on. Some we have absorbed because we are not able to pass on. But the positive scenario is the industry is moving towards value addition which has helped us and as we added a lot of capacity last year by spending almost 155 crores, the result is that we have been able to do a cumulative growth of 41% in the first half.

And looking at the next six months scenario and whatever we have done in the first six months, I think we should end up the year at 30-35% top-line growth for the full year. As far as the financials I would pass on now the floor to Mr. Sanjeev Agarwal and I would like him to comment on the financials.

Sanjeev Agarwal:

Good evening, ladies and gentlemen. Let me give the summary of the financial results for the quarter ended 30th September 2011. The consolidated revenue, that is, net sales for the current quarter was Rs. 317.28 crores as against Rs. 221.75 crores in the corresponding quarter of the previous year, registering a growth of 43%. The consolidated EBITDA for the quarter was Rs. 48.38 crores as against Rs. 34.89 crores for the corresponding previous quarter showing a growth of 39%. The EBITDA margin for the quarter was 15.25% as compared to 15.73% in the corresponding previous quarter. The profit after tax for the current quarter was Rs. 19.26 crores as against Rs. 13.32 crores in the corresponding previous quarter showing a growth of 45%. Similarly, in the half year ended 30th September 2011, we have attained consolidated revenue of Rs. 588.59 crores as compared to Rs. 416.86 crores showing a growth of 41%. The EBITDA has increased to Rs. 91.67 crores as against Rs. 66.19 crores, again 38% growth. The EBITDA margin for the half year also declined slightly from 15.57% to as compared to 15.88% in the corresponding previous half year. The PAT was Rs. 36.33 crores as compared to Rs. 24.64 crores in the corresponding previous half year, a growth of 47%. The debt of the company has increased marginally to Rs. 292 crores as of 30th September 2011 as compared to Rs. 288 crores as of March 2011. This is despite we have paid CapEx creditor amounting to Rs. 35 crores and also dividend amounting to Rs. 17 crores in the first half year, otherwise the debt would have declined significantly. The debt-equity has declined from 1.29 as of March ’11 to 1.10 as of September ’11. This has been due to better cash flow and continued reduction in the working capital cycle. So that was a brief summary of the results and we are open for any information and clarification on the results. And I welcome any of the questions.

Moderator:

Thank you Mr. Agarwal and Mr. Kajaria. Participants who do wish to ask a question may press ‘*’ and ‘1’ on their touchtone telephone. We have the first question from the line of Sachin Kasera from Lucky Securities. Thank you. And over to you, sir.

Sachin Kasera:

My question was regarding power and fuel costs. The costs have gone up from 20.5 crores to 57.7 crores. How much was it because of inflation and how much was because of increase in consumption because of increased production?

Ashok Kajaria:

Most of it is by way of increased production. The gas prices have gone up only by 10% in the first six months of the year, because they had already moved up in the month of February-March. So, basically, the costs inflation is only 10%, power, there has been no change. And rest is because of the increased production.

Sachin Kasera:

Could you just highlight as to what was our average gas cost for the quarter in terms of rate?

Ashok Kajaria:

If you take the blended cost, there are two plants we are operating; one is at Sikandrabad, U.P. and one is at Rajasthan Gailpur. The blended costs have been roughly around $9.5.

Sachin Kasera:

What would have been the same in say June quarter and also in the September quarter?

Ashok Kajaria:

There is no change from June to September.

Sachin Kasera:

How was the same September quarter last year?

Ashok Kajaria:

Last quarter there was much less, it was almost at $7, because there was no extra gas that we have taken, we have taken extra gas because of expansion which is at a much higher price.

Sachin Kasera:

Secondly, two of our plants have operated slightly below capacity in the quarter. So what is the current status, once they start operating --

Ashok Kajaria:

If you see the ceramic plants, they are both running at 100%. There are two plants; Sikandrabad we did some expansion in vitrified tiles. If you see almost 93% of the capacity in this quarter and overall in six months it has produced 88% but in this quarter it has come up to the level of 93%. Similarly, in the case of GVT & PVT Gailpur, if you see the first quarter was much less, in this quarter it has produced 84% and we hope that in the current quarter onwards we should reach at about 95%.

Sachin Kasera:

Will that help in terms of reducing bit of energy cost because --?

Ashok Kajaria:

Yeah, definitely. It will. Because the same kiln when it fires and produces more it will definitely reduce some energy cost.

Sachin Kasera:

Secondly, sir, overall in terms of the market, what is the type of pricing activity that we will be able to push through and what is the type of increase we have seen in the value-added products versus the normal products in the first six months?

Ashok Kajaria:

Now, we are moving towards value-added products. The sale of value-added products is almost 55% in the basket of products which is a big jump in the last three, four, five years because if you can see our presentation earlier years it was as low as 15%, it has gone up to 55% now in the first six months. And we are trying to move on. Every year we should add on to about 5-7% I think that is what is helping us to maintain the bottom-line and increase the profitability. Because the cost pressure is enormous this year.

Sachin Kasera:

What is the type of price hike we have taken in the first six months?

Ashok Kajaria:

We have made some price hikes, because it depends on individual products. But I would say roughly about 3-4%.

Sachin Kasera:

And it has been industry or it is only --?

Ashok Kajaria:

All industry. By alone, we will not be able to do it, but the cost pressure is everywhere today. Even in Gujarat, for your information, the gas prices have gone up at the market determined prices in the last nine months or so.

Sachin Kasera:

So, all the players in the industry have increased price hike?

Ashok Kajaria:

Yes. They are all paying almost the same price as far as fuel is concerned.

Sachin Kasera:

One last question, regarding the imports from China, we have recently seen the depreciation of Rupee. How it has impacted us?

Ashok Kajaria:

That will definitely impact, we will be able to pass on some price because the impact is almost to the extent of 10% because the dollar was 45, today, it is about 49 plus which is almost 10%, we will pass on some price, some price we will not be able to pass on, we have to absorb. But it will definitely affect the bottom-line, top-line will not be affected.

Sachin Kasera:

Because this depreciation has majorly happened in the last one month to 49?

Ashok Kajaria:

Yeah, 1.5 months. This impact will come now in the next six months.

Sachin Kasera:

So December and March quarter we will see the full impact of this?

Ashok Kajaria:

It will be felt. We have been able to pass on some prices already. But some impact will definitely be felt in imports.

Sachin Kasera:

Assuming scenario where suppose the current scenario continues and the Rupee were to depreciate further, could the long-term model of importing from China itself at risk?

Ashok Kajaria:

No, it is simultaneously as you are aware here also the costs are going up in every aspect because it is not only China, the costs are going up. Even China has increased the prices, not only the currency appreciation of a dollar to a rupee. Even they have increased the prices by about 3~~,~~ to 4% in the last four months. There also the cost pressure is being felt.

Sachin Kasera:

I was trying to understand if the Rupee were to appreciate by another 5-7% would it then become more competitive for you to start sourcing the same thing domestically or is it not --?

Ashok Kajaria:

No, we will not be able to source it domestically. That product has not been made domestically as yet. Most of it, whatever we are importing from China is the high value-added products as far as Polished Vitrified is concerned.

Sachin Kasera:

So the only option will be for us to increase the prices?

Ashok Kajaria:

Yeah. And since it is only imported the market is absorbing it to a great extent but some they cannot because you cannot have a very steep increase.

Sanjeev Agarwal:

And Sachin, one more thing, some of the costs of the domestic price will also go up because if the dollar goes up, some of the imported raw material may also go up, gas price will also go up because most of the gas price is dollar denominated.

Sachin Kasera:

No, as Kajaria ji mentioned that the product is not manufactured in India itself, so that way the competition again only be fortified?

Sanjeev Agarwal:

Yeah.

Ashok Kajaria:

The other people who are importing they are facing the same kind of pressure.

Sachin Kasera:

It is a question of whether the market will be able to absorb such steep?

Ashok Kajaria:

The market is able to absorb to a great extent as I said, not fully, but to a great extent it is able to absorb.

Moderator:

Thank you. The next question is from the line of Soham Das from RADA Advisors.

Soham Das:

Can you give us an estimated CapEx your firm will need to maintain its competitive position in the market?

Ashok Kajaria:

Last year if you look at our numbers, it is in the balance sheet, we did a CapEx of almost 155 crores; 130 crores at our Rajasthan plant to put up a new capacity of 6 million square meters and 25 crores at our UP plant where we expanded the capacity by 2.6 million square meters per annum. And this year we hardly have any CapEx.

Sanjeev Agarwal:

Except for the one which we have at Soriso, our subsidiary company which is doubling the capacity, that is ..

Ashok Kajaria:

We are doubling the capacity of the company where we acquired 51% last year, Soriso Ceramics. And there we are looking at a CapEx of roughly about 14 crores.

Soham Das:

So this year you mentioned that your CapEx was 35 crores in the first half year, am I right?

Ashok Kajaria:

No, it is not a CapEx of 35 crores. Last year CapEx which we did, the payment got due this year so that is why there was a pressure on repayment what Mr. Agarwal mentioned. There was hardly any CapEx except for the normal maintenance CapEx.

Sanjeev Agarwal:

CapEx has been booked in the last year. We took the machines over credit from the foreign supplier for which the bank had opened L/C and that payment got due in this financial year, so basically the purpose of my saying was that the debt has increased because of the CapEx creditors got converted into loan, otherwise, that CapEx has already been booked in the last financial year.

Soham Das:

So, will it be wise to say that maintenance CapEx will be 14-15 crores?

Ashok Kajaria:

This year?

Soham Das:

Yeah.

Sanjeev Agarwal:

We are looking around that.

Ashok Kajaria:

14 crores is the CapEx we are talking about Soriso expansion and a normal CapEx of about 10 crores maximum.

Soham Das:

Can I have any long-term margin target or annual sales target you hope to achieve in the next say five to six years?

Ashok Kajaria:

Five to six years is a too long time. We are looking at a 25%-30% growth from hereon.

Soham Das:

Any margin target you want to achieve?

Ashok Kajaria:

Margin means?

Soham Das:

Operating profit margin.

Ashok Kajaria:

We have an EBITDA of 15% which we have done in the first six months of the year and we hope to maintain that. The industry is moving towards value-added products be it ceramic, be it Polished Vitrified Tiles, be it Glazed Vitrified Tiles. That is what is keeping us at those levels. And I am sure that we should be able to maintain those levels.

Moderator:

The next question is from the line of Jiten Doshi from Enam Asset Management.

Jiten Doshi:

A couple of questions; are you experiencing a witnessing some kind of slowdown in the economy, are you seeing that there is some kind of slowdown that we hear from many other areas we are seeing consumption like ours and other areas. Are you beginning to feel that there is some sort of weakness?

Ashok Kajaria:

No, I just said in my opening remarks. One is, in all the leading brands including Kajaria, 70% of our products are in retail, where there is no slowdown at all. Our dealer strength is tremendous, customer per se is buying, Number one. Two, 30% was in project sales. And as I explained there are four such kinds of projects. So far we have not seen and as you can see in the first half of the year we have grown at almost 41% as far as the top-line is concerned. Second half, conceptively I am talking about that the top-line growth will be 30-35% for the whole year which means the second half we should grow at about 25% to maintain those levels or 25-30% to maintain the levels of 30, 35%. The second half is always better. And looking at that scenario, we are not seeing any slowdown at all.

Jiten Doshi:

And sir, what do you see on the gas prices going forward --?

Ashok Kajaria:

The gas prices have now what we have from GAIL, I have been interacting very closely, they have almost reached the peak and it should come down rather than going up. But it will not happen at least in the immediate future coming down because that is basically depend on when the Reliance production goes up. And that new gas contract is valid till December'13 . I think any change will happen will happen after that or international prices soften. There are very much possibility that international prices could soften because oil is softening, Brent is softening. So looking at that I think we just keep our fingers crossed.

Jiten Doshi:

Wonderful and how are you progressing on the Soriso Ceramic expansion?

Ashok Kajaria:

Yeah, that is on full swing, we expect to have production by February 2012.

Jiten Doshi:

For next year what will be the operating capacity at Soriso?

Ashok Kajaria:

We are already operating the first plant of Soriso about 95% plus and the total capacity is we are doubling from 2 million to 4 million square meters and operate at same 95-100%.

Jiten Doshi:

Wonderful. Are you looking out for more such acquisition?

Ashok Kajaria:

Yes, we are looking at.

Jiten Doshi:

Wonderful. So, it will all be now more joint ventures and that route rather than –

Ashok Kajaria:

That is what we are trying to do.

Moderator:

Thank you. The next question is from the line of Dhaval Shah from Derivium Tradition.

Dhaval Shah:

Can you just tell me what is the break-up in the top-line between the trading and your own manufacturing for this quarter?

Ashok Kajaria:

The trading is roughly about 222 crores out of 624 crores and 402 crores is manufacturing. Trading, there has been no growth compared to the first half of last year and this year.

Dhaval Shah:

So it will be around 35% your total trading --?

Ashok Kajaria:

Roughly about 35%.

Dhaval Shah:

And would this remain at this level or expected to go down significantly or --?

Ashok Kajaria:

If the numbers go up which we are looking at 25-30% growth going forward, the trading will definitely not be commensurate at the same level. We are trying to increase it but the level will be between 30-35%.

Sanjeev Agarwal:

The total will remain the same.

Dhaval Shah:

And your EBITDA margins are now 8-10% in trading?

Ashok Kajaria:

EBITDA margin in trading is 8-10%. Absolutely right.

Dhaval Shah:

And sir, was there any progress on the plan you had on going to Ethiopia and establishing capacity there? Any information on that you can share with us?

Sanjeev Agarwal:

As we discussed earlier Dhaval there is no concrete plan. As I told you we are exploring the African market. That includes Ethiopia. So we are studying and nothing we have yet finalized. Once we finalize, we will put it to the board, then we will inform.

Moderator:

Thank you. The next question is from the line of Umesh Kudalkar from Poonawala Shares & Securities.

Umesh Kudalkar:

The sales upon asset ratio has it structurally shifted because you are able to procure capital equipment at a lower cost, is that true?

Ashok Kajaria:

What has happened in this industry since you put a very good question, let me tell you from the beginning, in the first five years when we started the industry investment of Rs. 100 give you a turnover of Rs. 80 for the full year. After that Rs. 100 would give you a turnover of Rs. 100. Today, the scenario has changed because the machinery prices have come down in the last five years. And today, for a Brownfield expansion, Rs. 100 investment is giving you a turnover of almost Rs. 230-240.

Umesh Kudalkar:

That is significant.

Ashok Kajaria:

Yes, that significant change is there and the Greenfield plant is giving you a turnover of about Rs. 200. Because of the Chinese competition, because China started making machinery a few years back. They became global almost 4 years back and as a result Italians brought down their prices drastically to compete with them. So far our 95% of the machines are Italians, but what Italians have done they have shifted part of the manufacturing to China and part of the manufacturing to India to make it competitive, but they have made themselves competitive and guaranteed by Italians.

Umesh Kudalkar:

My next question is this is quite factual that you are not experiencing any slowdown in the retail, okay?

Ashok Kajaria:

Yeah.

Umesh Kudalkar:

However, all of us know at the intuitive level that it is quite counterintuitive to experience that kind of a scenario from retail because if you look at the newspaper headlines, interest rates going up, RBI is talking about slowdown, the IIP numbers are coming down, so why could be that the retail is not experiencing any slowdown, any --?

Ashok Kajaria:

What you say is correct. But in reality, if you talk about retail sales, it has not slowed down for two reasons. Maybe some brands may feel it but whenever the customer asks for the top 1-3 brands and overall if you see all of us you take HSI it is a Sanitaryware top brand, you take Jaguar, it is a Sanitary Fitting top brand, Asian Paints of course, Paint is a bigger industry. We are all experiencing a growth of 30% plus. All the other three companies are also experiencing the same growth. And in all the cases there were very strong distribution network where 70% is retail and 30% is you can say projects. So basically, it means like we have a network of almost 800 dealers as far as Kajaria is concerned. And they are all dealers, we are all interacting with the company directly. You do not see that this thing. But when you read the newspapers you also read this worrisome but at the end of the day it happens that you are able to achieve those numbers.

Umesh Kudalkar:

So my next question is if you connect the dot the marginal players will experience difficulty and there could be consolidation in industry going forward. Is that correct?

Ashok Kajaria:

No, your first question is very correct, the marginal players will experience a difficulty. Second question is not correct because what has happened in the industry. The basic production pattern remains the same but when we put up a first plant in 1988 the size of the kiln was 1 million sq. mtrs per annum. Today, the same kiln is now 4 million square meters per annum. It has become longer, it has become wider and which is fuel efficient, requires less power. As a result, somebody who have put up a plant say 10 years back it cannot meet the requirements today because it is energy inefficient.

Umesh Kudalkar:

So you will not acquire them obviously?

Ashok Kajaria:

We will not acquire them. We scrapped three plants; we put up in ‘88, ‘90, ‘91, we scrapped them three years back.

Umesh Kudalkar:

Now the last question, if you were to list one factor, that makes Kajaria excel and beat others in the market, what is that one factor?

Ashok Kajaria:

The biggest strength of Kajaria is the product range; the quality of the products, the servicing and the dealer network. These are the three factors where Kajaria outscores anybody else in the competition.

Umesh Kudalkar:

And you think these are difficult to replicate?

Ashok Kajaria:

These have been achieved over a period of 23 years as of today. And we have almost spent you can say 23 years almost 350 crores in branding advertisement which if you take it in 23 years it has costed us 350 crores but if you take it today the same amount could be 1,000 crores but this has been built over a period of years for which you are getting a reward today.

Moderator:

Thank you. The next question is from the line of Paresh Jain from MNYL.

Paresh Jain:

The trading revenue for this particular quarter?

Ashok Kajaria:

It should be about 127 crores.

Paresh Jain:

So that is a decline of vis-à-vis last quarter if I am correct?

Ashok Kajaria:

Vis-à-vis June 11?

Paresh Jain:

No, 2Q FY11, I mean September 2010.

Ashok Kajaria:

No, September 2010 is roughly about 97 crores and this quarter has been 127 crores.

Paresh Jain:

So trading revenue has grown in line with the manufacturing --?

Ashok Kajaria:

Manufacturing will grow this year faster. We have to give you some numbers. Last year out of 1,000 crores turnover, 550 was Manufacturing and 450 was Trading. This year, we are looking at a scenario where it should be roughly about 900 crores of Manufacturing because of the expansion which has taken place and Soriso acquisition and around 400-450 crores will be trading.

Paresh Jain:

And last year trading was 400 only?

Ashok Kajaria:

Last year was 450 and manufacturing was 550. This year we are looking at a scenario where manufacturing would be about 900 and trading would be about 400-450.

Paresh Jain:

So same?

Ashok Kajaria:

Yeah, almost the same.

Paresh Jain:

So going forward trading will decline?

Ashok Kajaria:

No, Trading per se will not decline in numbers but trading as a percentage of sales will decline.

Paresh Jain:

No, what my point is in absolute number since trading revenues are going to be more or less flat –

Ashok Kajaria:

Not necessarily, depends on the year, like you see I said just earlier in the question when somebody asked me, the dollar has gone up from 45 to 50. Now it is not profitable, to be very honest, or it is not as profitable what it was two months back. So, maybe we will have a very value-added product and reduce the trading for a while and then again when the time comes will increase the trading. Because trading is something which is flexible. Manufacturing is something which you are day in and out.

Paresh Jain:

Right. So my point is that in the next two quarters or in the second half of the year trading revenues vis-à-vis last year second half are going to be on the lower side?

Ashok Kajaria:

Almost same as what we did first half of this year. Maybe slightly less.

Paresh Jain:

So, can we see some margin expansion in 3Q and 4Q?

Ashok Kajaria:

Margin expansion should have been there this year but as I said earlier, there is a tremendous amount of cost pressure this year. If you go through the overall economy side all costs have gone up and which is not there in the year before or two years back. This year has been an exceptional year. The costs all around have gone up. Some costs we have been able to pass on, some prices, some costs we have to absorb. So we are able to maintain this margin and EBITDA at 15%. There is a lot of pressure.

Paresh Jain:

What has been the cost increase in terms of percentage and what is the kind of price increase that you have taken?

Ashok Kajaria:

It is very difficult to tell you in terms of percentage but I can tell you roughly. Like say raw materials, the freight costs have gone up. Second, body materials of freight costs have gone up. In the case of Glazed materials, all the prices have gone up because the metals have gone up. And there is a product called zirconium where prices have gone up by almost 120%, colour prices have gone up because some key components have gone up in the international scenario. Gas prices have gone up. Compared to last year gas prices have gone up drastically.

Paresh Jain:

So, just purely on the manufacturing side of the business what is the kind of EBITDA margin pressure that we have seen?

Ashok Kajaria:

EBITDA margin pressure has been there tremendously, but what has happened in the industry the positive side that the industry per se be it Ceramic, be it Polished Vitrified Tiles, be it Glazed Vitrified Tiles, we have moved towards value addition where our value-added market is able to absorb this cost push. What it was producing two, three years back, there would have been a much steeper decline. But since we have moved towards value addition, we are able to absorb the cost push.

Paresh Jain:

No, my point is on the apple-to-apple, for a same product vis-à-vis for the same product line compared to last year what –

Ashok Kajaria:

The cost has gone up by almost 10%.

Paresh Jain:

And prices correspondingly?

Ashok Kajaria:

Has gone up by 3-4% for the same product. As you say rightly, totally correct you are, but that percentage of lower value added products has reduced and we are moving towards value addition.

Paresh Jain:

Right, but on the same product line up, we could have at least had 200 bps decline in our EBITDA margin?

Ashok Kajaria:

Yeah, almost 300-400 points.

Paresh Jain:

And secondly, on the CapEx for this year what you are saying is currently around 25 crores, right?

Ashok Kajaria:

We will be doing a expansion of 14 crores –

Paresh Jain:

Right, which you acquired 51% last year.

Ashok Kajaria:

And roughly 10 crores is the maintenance CapEx for both the plants. Around 24, 25 crores.

Paresh Jain:

And the CapEx that we spend on our 6 million square meters tile facility, that was 130 crores, right?

Ashok Kajaria:

130 crores.

Paresh Jain:

And in converting the 2.6 at Sikandrabad, U.P. that was –

Ashok Kajaria:

About 25 crores.

Paresh Jain:

Soriso was acquired for 60 crores.

Ashok Kajaria:

No, Soriso was acquired for 6 crores.

Paresh Jain:

Sorry, and the Gailpur 3 MSM this one was set up at CapEx cost of?

Ashok Kajaria:

Gailpur was 6 million.

Paresh Jain:

No, the initial setting up of the 3 million that came up in March 2010.

Ashok Kajaria:

Sikandrabad.

Paresh Jain:

And going forward now since we have now got capacity at the end of last year only for which we can see the benefits in FY12 and FY13 probably --?

Ashok Kajaria:

You are seeing almost 85% of the benefit in FY '11-12. FY '11-12 you are seeing almost 85% utilization when you see the overall scenario. Only the first quarter was difficult. And at the second quarter if you see we have utilized one plant at 93% and the second plant at 84%.

Paresh Jain:

Right, so my point is that for next year to sustain that 25-30% growth is largely then going to be trading driven because we are going to be constrained by --?

Ashok Kajaria:

Two, three things. One rightly you are saying. It is a trading driven. Two, we have acquired Soriso. We are looking at similar facilities in Gujarat. Three, we are increasing our outsourcing in Gujarat also because some will come out of manufacturing which is not completed this year.

Sanjeev Agarwal:

This year we will be able to use not more than 90% of the entire capacity so the 10% capacity will get utilized in the next financial year, so some growth would come out of the existing capacity and some would come out of trading and expansion at Soriso.

Paresh Jain:

What has been our manufacturing this thing, our sales volume this quarter?

Sanjeev Agarwal:

185 crores.

Paresh Jain:

In terms of manufacturing sales volume?

Ashok Kajaria:

185 crores.

Paresh Jain:

That is the revenue, right?

Ashok Kajaria:

Yeah.

Paresh Jain:

No, I am talking on the volume in terms of –

Sanjeev Agarwal:

Less than 13 million square meters.

Paresh Jain:

2Q?

Sanjeev Agarwal:

Q2 I do not have handy. I have the figures for the half year. I will send that figure to you.

Paresh Jain:

Figure for the half year is 13, right?

Ashok Kajaria:

Half year is 12.72 million square meters.

Paresh Jain:

And what was it in last year?

Ashok Kajaria:

9.75.

Paresh Jain:

And trading volume?

Ashok Kajaria:

Trading in the first half was 5.35.

Paresh Jain:

And last year?

Ashok Kajaria:

3.58.

Moderator:

Thank you. The next question is from the line of Suresh Rao from Vertex Securities.

Suresh Rao:

My question is primarily to do with the industry per se like the growth that we have actually achieved the 41% which business division has actually delivered more, is it Ceramic division of our organization or is it Vitrified or Glazed Vitrified --?

Ashok Kajaria:

In the first half as you are aware we put up two capacities last year. The one capacity was put up of 130 crores for 6 million square meters of GVT and PVT that is Polish Vitrified Tiles and Glazed Vitrified Tiles and we did 25 crores in the UP plant where we expanded the capacity of Polish Vitrified Tiles by 2.6 million square meters So more growth has come from this division, but Ceramic division has also grown. For a simple reason, the Ceramic, more plants are operating at 100% plus capacity for the first six months of the year. More growth is from PVT and GVT.

Suresh Rao:

So it should be in the end of around 50% plus the polish and glaze vitrified tiles?

Ashok Kajaria:

Should.

Suresh Rao:

And going forward is there a specific focus on particular Vitrified section or something, how the market is trending towards?

Ashok Kajaria:

The market is for both. We are looking at a scenario where both divisions are growing. I can tell you out of 1300 crores Ceramic will do about 650 crores and Vitrified division will also do 650 crores, maybe slightly plus. We are in Ceramics for the last so many years. Only Vitrified tile and GVT tile is the new this thing where we got into manufacturing. And the markets of this are growing faster I do admit. As you move towards value addition, as you move towards better housing, these markets are growing faster.

Suresh Rao:

So when you were referring to value-added product, what exactly doing, better design or better quality or how much more sophisticated look?

Ashok Kajaria:

A latest technology has come in India. Digital technology. This was about two, three years back in Spain and Italy. China at the same time as India has launched. And this is just giving you replicating the normal marble. But if you see a wall tile or a floor tile of digital technology, you will not say whether it is a tile or a marble. So for, middle class or lower middle class or upper middle class which are our customers. Today good marble is not less than Rs. 250 a square feet I am talking about the absolute basis formula. We are selling tiles in the wall tile section anywhere between Rs. 17 to Rs. 80 a square feet that is the upper most that is Rs. 20 to Rs. 80 a square feet. In polish vitrified tiles, we are selling tiles from Rs. 45 to as high as Rs. 80 a square feet or Rs. 85 a square feet. In Glazed Vitrified Tile you are selling tiles from Rs. 60 a square feet to about Rs. 100 a square feet. Now, whatever we are doing let us say Glazed Vitrified Tiles, these are also being sold at Kajaria World which is our retail arm, part of Kajaria Ceramics. We are selling the same product a year back or a two year back or six months back at about Rs. 250 a square feet. When you start manufacturing the same product comes to you at Rs. 80 to Rs. 100 a square feet. So that is the revolution which has taken place and that is where the markets will last and that is where the growth is taking place.

Suresh Rao:

So when we are focusing more on the value-added kind of products would there be an upward trend to the price of our products?

Ashok Kajaria:

When we say value-added products, we are basically talking about products which fetch us between Rs. 50-100 a square feet in manufacturing. When you talk about trading, the same thing goes up by almost 2.5 times. That is what the trading is because you import, you pay duties and what not, what not has the freight factor. So, this is the difference because that sells much less in volumes. Here you are talking about bigger volumes.

Moderator:

Thank you. The next question is from the line of Sanjeev Panda from Sharekhan.

Priyakant:

This is Priyakant from Sharekhan. I have just a couple of questions. The first question is you said that the operating margin is around 15% and going ahead you expect to maintain the same. But at the same time you said that you shift towards the value-added products, so do you not expect the improvement in the margin?

Ashok Kajaria:

Your question is very correct. The margin should have gone up this year but except for the cost push, if the cost push was not there, we were looking at to have the margin at 1% more than what we did last year. And if you look at last year our EBITDA was 15.8% for the first half and this year it is 15%. So we should have actually achieved even 1% higher but there is a tremendous cost pressure on all fronts. And if we are doing at 15% believe me we are doing a great job.

Priyakant:

So 15% is on optimistic side you mean to that?

Ashok Kajaria:

No. Not optimistic side. 15% we will maintain, next year, if the cost push does not happen because this year has been a very unusual year for all kinds of industries you will agree with me as we are dealing with all kinds of industries. This year has been a very unusual year and looking forward we see a very positive side in '12-13.

Priyakant:

Another thing is on the realization side, now as our mix change towards the value-added products, so blended realization will improve?

Ashok Kajaria:

It has already improved. It will further improve as we go along.

Priyakant:

It will further improve by any rough range?

Ashok Kajaria:

Rough range I cannot say because as we move towards we are able to maintain these margins, but definitely going forward it will improve I can assure you.

Priyakant:

On the debt front, as I was hearing your con-call we do not have a CapEx much in coming one or two year right?

Ashok Kajaria:

We are talking right now about this year.

Priyakant:

So we do not have much CapEx in FY12?

Ashok Kajaria:

Right.

Priyakant:

So what is our plan regarding debt repayment? Because interest burden is eating a lot of our earnings.

Ashok Kajaria:

This year in spite in spite of the CapEx done last year which became overdue this year, we hope to reduce the debt by almost 40 crores this year.

Priyakant:

40 crores you are planning to repay this year?

Ashok Kajaria:

Yeah.

Sanjeev Agarwal:

Last year it was consolidated 292 crores, this year we hope that the debt should go down by 30-40 crores because first half year it did not go mainly because we paid dividend and CapEx creditors. So in the second half nothing of that sort is there. And we hope that the cash flow would go mainly for debt reduction. We hope to have a debt-equity less than 1 as of the end of the year.

Priyakant:

And this debt repayment, are we planning to do even in FY13 also, what is our long-term planning?

Sanjeev Agarwal:

It is nothing that we have to plan. Whatever cash flow is there it will either go for the CapEx or if the CapEx is not there, we will utilize less working capital limits, so obviously it will go for debt reduction.

Priyakant:

So CapEx we have not planned for FY13?

Sanjeev Agarwal:

Yes, we have not yet finalized the CapEx for the ’13. So if there is no CapEx then it will go for the debt reduction.

Priyakant:

And on the dividend front, FY11, we have paid a decent dividend. So does that a special or going ahead we expect similar lines?

Sanjeev Agarwal:

No, if you see for last 4, 5 years, barring one year, we have been paying between 20-25% as a dividend policy, so we will continue to pay around at least 20%.

Priyakant:

And last thing, our average interest rate is how much?

Sanjeev Agarwal:

It is around 12.5-13%.

Priyakant:

Do you not think so it is little bit on a higher side compared to the other corporate?

Sanjeev Agarwal:

I do not know about the other corporate but we have been fighting a lot with the bankers.

Ashok Kajaria:

Base rate today is 10-11%. Minimum is State Bank which is 10% and some of the banks have base rate as high as 11%. You cannot give below base rate anyway. So 1-1.5% if you are charging more you cannot do anything right now.

Moderator:

Thank you. The next question is from the line of Sachin Kasera from Lucky Securities.

Sachin Kasera:

One question regarding interest cost that you mentioned that second half since we do not have any major cash outflow, so can we see the interest cost for December and March quarter being lower than the September quarter assuming the interest rates remain at current level?

Ashok Kajaria:

Total amount of interest, let Sanjeev reply that.

Sanjeev Agarwal:

There could be some reduction in the second half, Sachin. But maybe because of the foreign exchange fluctuations we may have to add that also into account. I do not see scenario where the interest cost in totality would go up as compared to the first half. That would be safe to say.

Sachin Kasera:

Can you elaborate a bit on this mark-to-market which you just mentioned?

Sanjeev Agarwal:

Suppose we are having some imports, so there is any differential between the imports and the dollar is going up, and as you said earlier the dollar can touch Rs. 50-51, so if there is a scenario there would be some foreign exchange fluctuation. So that is also booked into our interest cost.

Sachin Kasera:

As of now there is no un-provided ForEx loss?

Sanjeev Agarwal:

We have provided in this quarter.

Sachin Kasera:

How much is that?

Sanjeev Agarwal:

We have provided around 1.5 crores.

Sachin Kasera:

So, of this 10.5 crores interest cost, 1.5 is the ForEx loss?

Sanjeev Agarwal:

Yes.

Sachin Kasera:

Actual interest cost –

Sanjeev Agarwal:

The difference between the dollar, when that took place and the current rate.

Sachin Kasera:

Secondly, this question is for Mr. Kajaria, you mentioned that we are looking at around 25% growth in FY13. Now this year we will be utilizing almost 90-95% for manufacturing.

Ashok Kajaria:

Around 85% for the full year. Ceramic will be 100% and overall would be less than 90%. Overall, PVT and GVT is 85% for the expanded capacity.

Sachin Kasera:

I am talking overall as a company on the total capacity, we have in the total capacity utilization for all the capacity put together should be around 90%?

Ashok Kajaria:

Above 90%.

Sachin Kasera:

So in that scenario when you are talking of a 25% growth next year would it mean that we are looking at more ?

Ashok Kajaria:

Yes we are looking .

Moderator:

Our next question is from the line of Ravi Dodhia from CRISIL Limited. Thank you and go ahead sir.

Ravi Dodhia:

Hello, thank you sir, congratulation on good set of numbers sir what actually we were hearing from the market is currently Kajaria is having some sales tax benefit so because of that they are enjoying margins of close to 15% but just want to get a sense from your side that benefits are when it is expiring and what will be the impact of that on the margins of the company going forward?

Ashok Kajaria:

We have a sales tax exemption with the Rajasthan plant only nothing to do with the Sikandrabad plant, whatever is the exemption is only exemption on CST 2% on the local sales which is the Rajasthan there is no other….. Third with the GST coming in, suppose if this benefit goes away it will go away on March 12, the total impact will not be more than 1.5% on the total sales. That's point number one. Now if GST comes in in all probability should come by 1st April, 2012, then we are at par with anybody else it will not affect.

Ravi Dodhia:

Okay, sure and in terms of your this value added products which you mentioned so their what portion of imports that you are doing from China?

Ashok Kajaria:

In Polished Vitrified Tiles all the imports are from China. In GVT which is Glazed Vitrified Tiles some imports are from Spain some are from Italy some from Brazil and some from China.

Ravi Dodhia:

Okay, okay sure sir thanks a lot. If I have any other questions I will get back.

Moderator:

Thank you so much Mr. Dodhia. Our next question is from the line of Janaki Raman from Franklin Templeton. Thank you and please go ahead.

Janaki Raman:

Yeah, good evening Mr. Kajaria.

Ashok Kajaria:

Good evening. How are you?

Janaki Raman:

Fine thank you. I just wanted to ask a question regarding this cash flow and the asset turnover you mentioned in one of your earlier answers that the asset turnover ratio for the Brownfield expansion is about 2.3 and your revenue has been growing at 30, 35% very impressive numbers meaning that you are adding revenue of around 300, 400 crores every year so comparing this revenue with the asset turnover ratio it implies that you need a capital of roughly about somewhere around 125, 150 crores every year,

Sanjeev Agarwal:

If it is only by way of manufacturing.

Janaki Raman:

Right, right now given this kind of CapEx requirement do you think not on an annual basis but if you take a block of three year five years do you think this business can generate free cash flow?

Ashok Kajaria:

No, we are already having a very strong cash flow if you see the numbers balance sheet numbers we are having very strong cash flow number one. Number two this company has not raised any equity in the last 20 years. It has worked on debt and internal accruals. Thirdly, the positive thing which has happened in the industry there are two major parameters which have happened because the machines have come down and as we said 2.3 for a Brownfield and 2.0 for a Greenfield expansion. EBITDA margin for manufacturing remains the same its about 20% EBITDA margin earlier was 20% today it is 20% most of the earlier payment was going for debt repayment and all that there scenario has totally changed today number one. Number two now we have instead of only manufacturing we have a product mix of manufacturing and we have a trading. Like last year out of 1000 crores we had 550 crores of manufacturing and 450 crores of trading. This year we are looking at a scenario where we should have 900 crores of manufacturing and about 400 to 450 crores of trading. So there you don't require any CapEx. So looking at a scenario if you grow at 25% 30 to 35% plus we definitely require some CapEx outgo and part of the other sales will be met out of trading.

Sanjeev Agarwal:

I will also add one more thing, as of March 2010 our total debt was 265 crores and as of March 2011 it was around 280 crores. So there was only 15 crores increase in that debt wherein we had put in around 150 crores plus CapEx in that year so that is the answer to your question. Cash flow is sufficient to take care of big CapEx and one more thing has happened as far as our company is concerned, the steep reduction in working capital cycle. The working capital cycle as of March 2009 was more than 100 days and as of March 2010 it came to 80 days and as of March 2011 it came down to 42 days and it has further reduced to 38 days as of September this year. So lot of money is coming out of working capital reduction also. So two things are happening one is the working capital reduction. Number two the asset turnover is improving. Both combined together is giving that kind of cash flow and better return on capital.

Janaki Raman:

Right, but this improvement in working capital norms it looks very impressive but do you think this 40 days kind of working capital cycle is that a sustainable number for you?

Sanjeev Agarwal:

Yes sir we believe so.

Janaki Raman:

Right, one more question I would like to ask is I am calling from Chennai and here many of the builders are importing tiles from certain European countries and what they are telling us is that you get a better variety of designs there and including freight the cost of imported tiles is either equal to or even lower than the domestic tiles is that correct factually?

Ashok Kajaria:

No, no, we also have a Kajaria World there just for information in Chennai, same imported product we are marketing almost 2.5 times that what we are selling locally. See the European products today it starts from Rs. 150 goes as high as Rs. 500 a square feet and I am talking about glazed vitrified tiles, which is the most upper end of the tile. Whereas production that we are doing is costing you anywhere around Rs. 55 goes as high as maximum of about Rs. 100 a square feet. There is a tremendous amount of price difference. You can just visit to one of our own dealers in Chennai they are one of the leading dealers you can, you can see the difference yourself.

Janaki Raman:

Okay and this dealer network of 800 that you mentioned is it generally exclusive dealership or is it multi-brand?

Ashok Kajaria:

No, out of it mostly are not exclusive number one, because as a customer you would like to have freedom to see them. Out of 800 I would say 150 are exclusively Kajaria about 650 will be keeping two to three brands minimum.

Janaki Raman:

Okay, okay excellent sir. Thank you all the best.

Ashok Kajaria:

Thank you sir.

Moderator:

Thank you so much Mr. Raman. Our next question is from the line of Mayur Gathani from OHM Group. Please go ahead sir. Thank you.

Mayur Gathani:

Hi, good evening every one. Sir I just missed what are the number of exclusive dealers that you have out of 800?

Ashok Kajaria:

We have 150 exclusive dealers and 650 dealers should be keeping two to three brands.

Mayur Gathani:

Okay and this Kajaria World would be a part of this 150 or is it separate?

Ashok Kajaria:

No, no “Kajaria World”, we have 12 stores.

Mayur Gathani:

That’s a company owned?

Ashok Kajaria:

That has nothing to do with the dealer network.

Mayur Gathani:

That’s a company owned?

Ashok Kajaria:

Yeah, yeah that's company owned out of which 8 are company owned and 4 are from franchises.

Mayur Gathani:

Sir Soriso expansion plan would that be done by this FY12 end?

Ashok Kajaria:

Yeah, We should be in production by February '12.

Mayur Gathani:

Sir can you throw some light on reduction of working capital has been pretty impressive so how have we gone up on that?

Ashok Kajaria:

I will request Sanjeev to answer that.

Sanjeev Agarwal:

Basically because of the moving towards the value added product we have been able to reduce the inventory of the finished goods, the product is moving much faster than it used to be earlier and we have been able to get the money also back from the market faster than it used to be. This is from the current asset side and also from the liability side we have been able to take more credit from the market, used to be earlier. Import of tiles have also contributed for the working capital reduction because there is a negative working capital as far as import is concerned, we got gas last year in May 10 so earlier we use to pay in advance for the propane, we were using which was the costlier fuel and now we get around 20 days credit from GAIL that has also contributed for the working capital reduction. So there is a combination of factors. I would say mainly because our product is moving faster than it used to be earlier because of value addition in the product line.

Mayur Gathani:

Okay and you see this 40 days or so is sustainable going forward?

Sanjeev Agarwal:

I would say it may reduce in this financial year by couple of days.

Mayur Gathani:

Okay, fair enough excellent and all the very best sir.

Sanjeev Agarwal:

Thank you sir.

Moderator:

Thank you so much Mr. Gathani. We really appreciate that. Our next and final question would be from the line of Vikas Singh from B&K Securities. Thank you and over to you sir

Vikas Singh:

Hello sir.

Ashok Kajaria:

Yeah.

Vikas Singh:

Good evening and congratulation on the good set of numbers. Sir basically my question was regarding the working capital debt only which we are improving very rapidly. So going forward are we seeing any further improvement or it will sustain at this level?

Ashok Kajaria:

I would request Sanjeev to reply that.

Sanjeev Agarwal:

No, as I said earlier I am just repeating the same that it has reduced to 38 days and we hope and we are trying very hard that we can reduce it by another couple of days but we will be able to sustain at this level.

Vikas Singh:

Sir as I can see your liability as such actually increased very significantly from around a 15,000 lakhs to 24,000 lakhs so basically why is that so?

Sanjeev Agarwal:

Liability is for two, three reasons as I said one is we are importing lot of tiles from China and other countries where we have negative working capital. So one is because of increased import and also we are importing raw material there also we get much good credit and for the gas we were using propane earlier, now we are we have got gas connection where we get credit of 20 days against advance payment of propane and from the normal routine raw material we have been able to take more credit from the market.

Vikas Singh:

Okay, sir that’s all from my side. Thank you.

Ashok Kajaria:

Thank you very much.

Ashok Kajaria:

Thank you.

Moderator:

As there are no further questions at this time, I would like to hand the conference back to Mr. Rohan Gupta of Emkay Global for closing comments. Thank you and over to you sir.

Rohan Gupta:

Thank you Terrence. Sir I know it has gone a very long call and just couple of questions from my side if it’s not getting very late on your side sir.

Ashok Kajaria:

No problem sir. Please carry on.

Rohan Gupta:

Sir, mentioned on imported goods that especially on a trading we make roughly 8 to 10% margins and we have already seen that rupee getting depreciated by almost 10% and you also mentioned that Chinese product cost has also gone up by almost 4%. So I mean even net-net we have to take a price increase of almost 13% to 14% to compensate for the rupee and for Chinese production cost and in that scenario we are making only 8% margins and you said that company is not commanding full pricing power where you can pass on the whole impact in terms of cost increase. So our 8% margin because we have anyhow very thin margin so if they come down by again 5% then we are just working only on 2 to 3% margin. So in that kind of scenario you are indicating in terms of trading opportunity?

Ashok Kajaria:

Yeah, Rohan your question is very valid and I fully endorse whatever you said. What we have done on 1st October we have raised the prices by 10%. Still there is a gap of 3 to 4%. Now second option for us was to move towards the value added chain in imports also because right now we were importing lot of low value added which is called soluble salt and we are moving towards a value-added chain where we will be able to make up for that. Otherwise as told by you and you are absolutely correct we would be losing out in our margin by almost 3 to 4% in imports. It can only be made by shifting to more value-added material from China or any other country.

Rohan Gupta:

So you are indicating that so far now we have been able to do that and we have already increased product pricing?

Ashok Kajaria:

We have already increased the prices by 10% but still there is a gap of 3 to 4% and that shift to value-added will not come immediately. Our people are already there in China as of today and we are trying to move and buy more value-added materials for trading because that is that way only we can help that to nullify that.

Rohan Gupta:

Okay, Sanjeev sir can you just give us a bifurcation for our working capital debt and long term debt?

Sanjeev Agarwal:

Working capital would be around 80 to 85 crore and the balance would be the long term.

Rohan Gupta:

And this working capital debts are our average debt cost would be roughly about?

Sanjeev Agarwal:

Working capital would be slightly lower than the long term. We are doing lot of restructuring. We have paid some high cost debt and we are taking some low cost debt. So there is a lot of restructuring internally we are doing to keep the impact lower of rising prices. The working capital loan would be 50 bps lower than the term debt. In working capital also we are not utilizing the normal cash credit. We are taking 90 days working capital demand loan which is cheaper than the normal cash credit limit. So we are trying to keep our self within the benchmark.

Rohan Gupta:

And sir just only one final question. Probably you would be looking at the long term I mean for the next two to three years history of the company. Like last one and a half year we have seen manufacturing growth driven by your capacity expansion. If I just look at your current balance sheet closely and even after hearing you today for growth except Soriso capacity expansion that is even a small 2.3 million square apart from that I didn't hear that anything on own manufacturing growth or new capacity put up by the company no plans for that. So I mean is it like that you are in the very early stage right now so you don't want to discuss or reveal those plans or company is relying a lot on some acquisition opportunities maybe in future? I mean how you are going to achieve 30% kind of growth if I just say annualize upon next two to three years?

Ashok Kajaria:

As rightly pointed by you we you don't see anything on the horizon right now but we are doing two-three things. Number one, the numbers will come from increase in our existing capacity next year from whatever we have utilized that will give us some numbers. Number two is increase in imports. Third is we have already outsourcing with almost four five companies in Gujarat where we wish to take a stake in the latter half of the year and fourth whatever comes we are looking for opportunities which we are not able to close at this stage, look at the opportunities where we should go from here. We will grow I can assure you and we will we are looking at 25% plus growth but more details will come as we go along.

Rohan Gupta:

Okay. So first you gave four parameters to grow and first one like Brownfield expansion which I think you indicated right?

Ashok Kajaria:

Yeah.

Rohan Gupta:

Sir how much scope we have for Brownfield expansion at both of our plants?

Ashok Kajaria:

No, in our current plants in Sikandrabad we have no growth possibility, it's fully utilized. In Rajasthan plant we can grow, we can grow by another 6, 7, 8 million square meter that's one and other processes I have already told.

Rohan Gupta:

Okay and sir as you said you are already having like Soriso kind of arrangement with other four, five players?

Ashok Kajaria:

We are already outsourcing.

Rohan Gupta:

Outsourcing, correct?

Ashok Kajaria:

Yeah.

Rohan Gupta:

So this outsourcing in terms of total volume how much you are buying from them in house?

Ashok Kajaria:

Right now we have bought in the first six months roughly about 1 million square meters but looking forward this number will increase.

Rohan Gupta:

One million square meter?

Ashok Kajaria:

Roughly about 1 million other than Soriso but this number will drastically increase as we go forward.

Rohan Gupta:

Okay so 1 million so roughly 2 million it is going to be….

Ashok Kajaria:

No, by the end of the year this will be about one plus three 4 million.

Rohan Gupta:

One plus three?

Ashok Kajaria:

Yeah.

Rohan Gupta:

One million we have outsourced from Soriso and 1 million from other…

Ashok Kajaria:

Yeah, Soriso is separate we are not talking about that we are talking about the outsourcing other than Soriso.

Sanjeev Agarwal:

Total ceramic tile outsourcing is to the tune of 2 million.

Rohan Gupta:

Okay sir great and I hope that the way you have delivered so far now the results you will continue to maintain your extremely attractive performance.

Ashok Kajaria:

Thank you Rohan, thank you for all this support and thank you for organizing this conference. I really thank Emkay Global for doing this and I thank all the participants who have been patient enough to sit across this and listen to us and I hope we have been able to answer most of the queries that have come to us.

Rohan Gupta:

Great sir, Great Mr. Kajaria.

Ashok Kajaria:

Thank you.

Moderator:

Thank you so much sir. On behalf of Emkay Global Financial Services that concludes the conference. Thank you for joining us. You may now disconnect your lines. Thank you.

Note: 1.This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.

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