



February, 27th, 2018

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Dear Sir,

Sub: Transcripts of the Conference call.

BSE Scrip code / NSE Symbol: 532486 / POKARNA

We refer to above and hereby submit the transcripts of Q3 & FY18 Earnings Conference Call, conducted on February, 16th, 2018.

This is for your information and dissemination.

For Pokarna Limited


M. Viswanatha Reddy



Authorised signatory

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Pokarna Limited

Q3 & 9 M FY18 Earnings Conference Call

February 16, 2018

Moderator Ladies and gentlemen, good day and welcome to the Pokarna Limited Q3 & 9M FY18 Earnings conference call. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa Thank you. Good day everyone and a warm welcome to Pokarna Limited's Q3 & 9M FY18 Analyst and investor conference call.

We have with us today Mr. Gautam Chand Jain –Chairman and Managing Director and Mr. Paras Kumar Jain – Chief Operating Officer of Pokarna Engineered Stone Limited.

We will begin this Conference Call with opening remarks from the management following which we will have the floor open for an interactive Q&A session. Before we begin I would like to point out that some statements made in today's discussions may be forward-looking in nature and a note to that effect was stated in the con call invites sent to you earlier. We trust you have had a chance to go through the presentation and the outlook on our financial performance.

I would now like to invite Mr. Paras Jain to make his opening remarks. Over to you, Paras.

Paras Kumar Jain Thanks, Gavin. Good afternoon everyone and thank you for taking the time out for joining our earnings conference call. Before I begin discussing the key operational developments, I would like to apologize for the delay in arranging this call due to unavoidable reasons.

Trust all of you have received the investor presentation.

Let me start the discussion by running through the headline numbers. Our revenue for the quarter and the nine months stood at Rs. 88 crore and Rs. 241 crore respectively. EBITDA for the quarter stood at Rs. 31 crore while on a nine months basis it stood at Rs. 77 crore. Margin for the quarter and nine months stood at 35% and 32% respectively while PAT stood at Rs. 15 crore for the quarter and Rs. 33 crore on a nine months basis.



Moving on to our key operational development. We are pleased to announce that we have completed the registration and purchase of land for setting up of our new Greenfield Engineered Stone facility. The land is situated near to Rajiv Gandhi International Airport and is also in close proximity to inland container depot of Hyderabad and is connected by road to key domestic ports.

The facility will carry to both the International as well as domestic demand which we are witnessing in the encouraging trends. Moving on to quartz business. The business continues to be steady. As mentioned in our earlier call we are focusing on developing products which rank high in terms of aesthetic look and presence.

Such a strategy may result in lower throughput but realization would be better on a long term basis. We continue to work on developing and strengthening our R&D capability and maintaining a healthy product line.

To conclude I would like to reiterate that we remain positive on our businesses. This concludes my opening remarks. We can now start Q&A session.

- Moderator** Thank you. We will take the first question from the line of Kaustav Bubna from SKS Capital & Research.
- Kaustav Bubna** Just wanted to know on your granite business you have been saying improved performance. So what is leading to this and do you think we have bottomed out in the granite business and any outlook on that?
- Gautam Chand Jain** Some improvement is due to the efficiencies on the quarries front where the productivity has been improved after the development phase. And I think going forward will be the same more or less what we are doing in the last three quarters based on same topline as well as the bottom lines.
- Kaustav Bubna** Secondly we have been talking about restructuring our debt from domestic to foreign I mean we have been talking about this a while but nothing has happened on the front. Could you update us on now that we have got the land?
- Gautam Chand Jain** No, finally are you talking about the old debt which was to be restructured to foreign currency loans?
- Kaustav Bubna** Yes.
- Gautam Chand Jain** Yes, we have already received the confirmation from two banks and even the third bank has given a letter, but we are awaiting because all the three banks want to implement at the same time and I am hopeful that next few days or weeks it should be implemented. But we have already got the confirmation from two major banks and the third bank is awaited still though they have given an official letter but we have yet to get the confirmation in terms of the rates and the implementation date.
- Kaustav Bubna** Could you share these bank names, is it possible?
- Gautam Chand Jain** Yes, Union Bank and Indian Overseas Bank have already given their confirmation. And we are awaiting Bank of India's though they have also given their letter to confirm but we are yet to get the sanction from them.



Kaustav Bubna So you are saying in FY19 we will see this effect?

Gautam Chand Jain Yes, definitely.

Kaustav Bubna And do you think I mean as we are seeing this business environment even your strategy changing for your quartz and granite focus on high value. Do you think and I mean now that we have got the land, do you think FY18 would be like a bottom year for you in terms of performance?

Gautam Chand Jain The new plant should take I do not know till we do not get the reschedule of the whole line implementation from Breton but it will take as I have been telling earlier also that from the day we start it should take about 18 months. So 18 would be definitely the same period as well as I expect even 19 to be in the same range.

Kaustav Bubna Okay but you do not think that your efforts in granite and quartz should lead to a year-on-year improvement in both these businesses?

Gautam Chand Jain Marginally it is nothing to talk till we don't add the capacity.

Moderator: Thank you. The next question is from the line of Siddhant Maheshwari from Multi Act. Please go ahead.

Siddhant Maheshwari Sir, in the last call we discussed the imports of quartz in US are growing in double digits but Pokarna is in decline in quartz there. India's exports of quartz to US are also growing at a faster pace like we got this data from some websites?

Paras Kumar Jain We have said that the quartz is actually increasing in the US, you are right on that front. Now as I mentioned at the beginning of this call what you look at basically from those website is the square footage which comes in and not the value in real terms. So as we have said in the beginning that we are now focusing on producing the products which are more aesthetic driven apart from having a strong technical capabilities.

So that would have some impact on the throughput on the long term basis. And the quartz exports increasing from India is not really a worrisome factor for the simple reason that we are not competing on a basic segment of the product which is actually the case with all the other manufacturers based out of India. And as a strategy which we just mentioned about sometime back also we will focused only on the products where the realizations are better than the basic products and the throughput will be limited.

So I do not think we should look at square footage as the basis for evaluating as to what is happening on the exports out of India into the US.

Siddhant Maheshwari And sir, are we planning for any CAPEX in the granite segment in near future?

Gautam Chand Jain No, right now there is nothing on the cards.

Siddhant Maheshwari And sir, do we plan to set up any subsidiary in US to take advantage of the low tax rates?



Gautam Chand Jain No, right now nothing is planned in that regard.

Siddhant Maheshwari Sir, do you expect any impact on profitability due to increase in the crude prices nearly in terms of cost of pet resins and transportation cost?

Gautam Chand Jain There would be certain effect on the profitability. You would have also seen in the recent quarters that little bit of effect is there because of the crude increase and the resin price increase.

Siddhant Maheshwari And sir, just the last question. What do you think what is our competitive advantage apart from Breton technology against other Indian manufacturers who are exporting quartz to US?

Paras Kumar Jain See basically technology is one aspect of business. There are various other aspects of the business which are very important also to understand. The first and the foremost is your sense of market in terms of your understanding and also your sense of what the trend is. If you look at the quartz business unlike any other natural stone business it is predominately fashion driven. So you should typically be having a good grip on how the trends are moving, why the trends are moving and towards what direction the trends are moving.

So with our background of fashion if you recall the association of promoter it all starts from their fashion background. If I have to just briefly mention Mr. Jain started his career with making some proprietary designs and all with Raymond and that is the family business for ages now. So our sense of understanding the fashion is something which is very important. Secondly, is also our understanding of various other aspects of production process. Like if you see there have been very various manufacturers in the world who have been into business before us but still have not been able to catch up as we did in the past.

So that is because of also doing something which is proprietary not only on the product side but also on the process side. So we have done lot of other modifications within the line ourselves with our experience. So that is something which is proprietary to us. So this is one of the key reasons and of course definitely having a good team to perform, a good young and energetic team which actually complements the technology and other aspects of the business.

And then definitely having a good raw material base. If you look at one of the best qualities of quartz is available in India and fortunately it is available in the states where we operate. So that is also an important aspect. And then definitely our understanding of the natural stone business of 25 years and the network which we have developed over the decades of having relationship with partners across various countries. So that is also an important intangible aspect of the business.

Moderator: Thank you. The next question is from the line of Sandeepa Ghosh an individual investor. Please go ahead.

Sandeepa Ghosh Sir, I have few questions. your EBITDA margins for Quartz business has seen sharp improvement, so sir, is this a traction from the new quartz products we have been making?



Paras Kumar Jain So definitely that is one of the reasons that the new product which we have put in the market that has also impacted the margin's improvement what you see. And apart from that various other operational improvements which are trying to achieve. But on a longer term we will have to all these things because we see the trend in crude going up in the recent future. So we will have to see it on long term basis how do we to have the sustainability.

Sandeepa Ghosh So is the topline in the quartz going to increase going ahead what do you think depending on the demand in the new segments we have produced in quartz?

Paras Kumar Jain See we are not looking at the current focus is not on increasing the topline but is actually on improving the margins and improving the bottom line. So that is the reason if you just recall what I mentioned at the beginning of the call that we are now focusing on the products which have high value aesthetics which would impact the throughput. So we do not expect the topline to drastically change. But we expect the bottom line to improve gradually.

Sandeepa Ghosh Another thing is in the US there is an inflation fear going on the CPI index data is moving up greater than the expectation. So how do you see these inflation coming up in the US going to affect our margins, will that improve and what is the outlook the whole aspect?

Paras Kumar Jain See we have not really studied it fully. So it would be premature to comment on it. So we will have to see how it impacts. Because our business typically is not driven by things on a very momentum basis. So we will have to see how it impacts. So to be honest we have not really applied mind on it and because our industry not typically moves on an inflation basis.

Sandeepa Ghosh So the US tax cut from 35% to 21% the corporate taxes sir, do you think that will affect our taxes and will not make the US production lines more competitive?

Paras Kumar Jain I do not think that just a cut in a tax rate typically impacts the pricing policy. Pricing policy has got various components and one of the components is definitely the tax structure. So we do not really see that cutting the tax rate is a threat to a manufacture from non-US country.

Sandeepa Ghosh Okay so last one is also the quartz sector. Sir, we were decreasing our geographical concentration risk by expanding to other countries like Australia and Europe segments which are also matured markets. Sir, do you think we can maintain the present quartz margins or a ballpark figure of the present quartz margins going forward if we start marketing in those countries?

Paras Kumar Jain See basically every country has its nuances and every country has certain products which are required to be there So if you go back to our previous discussions also of since the time we have started the conference call margin protection is definitely a priority and that would not come at the cost of entering some markets. Of course there could be some entry strategy to begin with but on a medium to long term basis definitely the margins would be something where we would focus on. And there are definitely pockets within these high competitive markets where the demand for good products with a better margins is still existing.



Sandeepa Ghosh Sir, I understand your intention. Sir, but still continuing on this line. The IKEA route we are going to market our products in the quartz segment in India. Sir, what do you think is the margin possibilities in India in quartz?

Paras Kumar Jain See I would still maintain what I told you. Just because you are a partner of a particular company does not necessarily mean that you do not get the margins. So we believe that whatever partnerships which we have made till now we believe that the margins would be on the lines with what we have been maintaining.

Moderator: Thank you. The next question is from the line of Keshav Mishra, a retail investor. Please go ahead.

Keshav Mishra My question is related to the granite section. We see in the PPT that there are some reduction in GST rate. So with the implementation of GST regime do you see finally granite business coming to the organized sector more in India?

Gautam Chand Jain As you are aware that we focus most on exports. Of course, the GST will play important role in the domestic sector. But also it will definitely give momentum to the organized sector. But this is too early to comment the effect. But obviously organized sector will get benefit out of the GST implementation.

Moderator: Thank you. The next question is from the line of Saurabh Jain, an individual investor. Please go ahead.

Saurabh Jain One is that you mentioned that you are focusing on quartz products with higher realization combined this with the fact that our quartz sales are down by 20% over last year in this quarter. So is it correct to assume that we have sufficient capacity to product some additional 20% quantity without any expansion?

Gautam Chand Jain I think 20% overall in the nine months not the quarter and that was because of the shutdown for 45 days in the first quarter. Overall 5%, 10% fluctuation will always remain each quarter because of the product mix that we make. So basically what you are talking about is not in this quarter it is in the first quarter of this financial year. where the shutdown was there and we are trying to make up in the next quarters now.

Saurabh Jain Sir, sorry to just put in the numbers. So Q3 FY17 quartz sale was Rs. 55.7 crore and Q3 FY18 is Rs. 46.8 crore. The shutdown was happened in Q1 of 2018. So I was actually referring year-on-year number?

Gautam Chand Jain No, 5%, 10% will obviously there will be always the change because of depending on the product mix we do during this quarter. Because product mix also includes different thicknesses as well as the different price strategy products.

Saurabh Jain So in summary I just wanted to understand even without expansion we can do at least additional 10%, 15%, right?

Gautam Chand Jain It will depend on again the order book because if there are more color changes the productivity goes down and if there are less color changes the productivity, efficiency improves and it also depends on the thicknesses. So it is a mix of both, product as well as the thicknesses.



Saurabh Jain Sir, my second question is do we currently sell in US in our own brand or are there plans?

Gautam Chand Jain Yes, we do have large distributors now selling with our own brand and we are adding lot of new distributors and going forward we need to improve our brand promotion rather than doing only private label that is our future focus.

Saurabh Jain Sir, just one suggestion. That is an input from my side. Sir, I was doing some online research and there are lots of online forums on Internet where consumers in US are discussing about which brand of quartz is good. So my suggestion was I am a sales and marketing professional as well. So my suggestion was it is a very low hanging fruit if we can increase our online presence on these forums wherein we can interact with these consumers in US. I think that can help in establishing the product and it will not cost anything.

Gautam Chand Jain Yes, suggestion well taken. Thank you.

Moderator: Thank you. The next question is from the line of Ashish Kacholia from Lucky Investment. Please go ahead.

Ashish Kacholia My question pertains to the demand scenario in the US how's the demand scenario?

Gautam Chand Jain Demand is growing for quartz as so is the competition.

Ashish Kacholia And on the supply side are there more lines coming up like ours Breton technology worldwide?

Paras Kumar Jain Yes, there will be continuously because the market for quartz is growing obviously more lines will come, more competition not only from organized sector but including unorganized the Chinese line players will be looking at selling in the US market that will continue actually.

Ashish Kacholia What would you think would be the percentage growth in terms of the value in the US quartz market?

Paras Kumar Jain See basically we are expecting that the US market on a CAGR basis would grow at least 20% to 25% year-on-year for at least five, six years.

Ashish Kacholia 20% to 25%, that is a huge number?

Paras Kumar Jain Yes, it is actually happening. If you look at the statistics which are coming from the US market which are quite general and open also for their public classes. At quarter-on-quarter there has been a significant increase in the quartz off-take and that actually and if you look at the percentage of growth which is not happening in other surfaces including granite is also one of the reasons why quartz is picking up. And also with the commercial activity picking up in US the demand especially in the commercial side the project side is also getting translated to the quartz segment. And some part of laminates are also giving away their share to quartz. So quartz as a market is actually the most happening market in the recent times.



- Ashish Kacholia** I just wanted to ask if the Chinese quality that is used to be pretty inferior to Breton has that picked up and kind of also giving good competition?
- Gautam Chand Jain** Everything is selling in the market including the Chinese product in terms of visual look they have improved definitely but technically the product remains the same more or less. So premium end of the market will always ask and demand for Breton stone for that quality. But in US market again price also plays a role and low end customers still buy Chinese products because they can still use quartz instead of using something else.
- Ashish Kacholia** And you just mentioned that we are also looking now to sell more and more products under our own brand name. Is there any reason for this change in tariff, you used to be pretty focused on being a good OEM supplier earlier?
- Gautam Chand Jain** No, this was a pre-determined strategy that first strategy was to make sure that we run the machines all 24 hours and now the next strategy is to create the brand awareness and long term which is more beneficial in all ways.
- Paras Kumar Jain** Adding on to what Mr Jain said, while the focus on our brand creation it does not mean that we dilute our OEM business. So that focus continues but the amount of focus what we had on Quantra in the past would drastically increase both in the domestic and the other markets.
- Ashish Kacholia** We seem to have got back our margins in this quarter. I mean Rs. 20 crore on Rs. 46 crore, Rs. 47 crore of sales. So I mean does this mean that we have maxed out on the sales to get this margin? What would you give us the sense on the overall the kind of EBITDA that if you can extract per year from this business?
- Paras Kumar Jain** We think that I am assuming that the crude prices would typically at least for a quarter is strong. So adjusting my talk to that subject we believe that the topline can still be strengthened and proportionate adjustments would definitely happen on the margin side.
- Ashish Kacholia** So we can have some 10%, 15% growth in the topline from where we are currently in terms of utilization?
- Paras Kumar Jain** Yes. Once we stabilize the production of our new color I think we are confident of getting that done.
- Moderator** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.
- Paras Kumar Jain** Thank you for participating in this call and we look forward to talking to you again. Thank you.

