



30th November, 2016

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| 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 |
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Dear Sir,

Sub: Transcripts of the Conference call.

We refer to above and hereby submit the transcripts of investor conference call, conducted on 16th November, 2016.

This is for your information and dissemination.

For Pokarna Limited

Vinay Paruchuru
Company Secretary

Pokarna Limited

Registered & Corporate Office: Surya Towers, 105, Sardar Patel Road, Secunderabad 500 003, Telangana, India.
Phone: +91 40 2789 6361/7722, 6626 6777, F: +91 40 2784 2121, E-mail: contact@pokarna.com, Web: www.pokarna.com

Factory Address: Unit 1: Survey No. 123, Toopranpet Village, Chautuppal Mandal, Nalgonda District – 508 252
Telangana, India, T: +91 8694 – 200666

Unit 2: Survey No. 563, 568, 574, Aliabad Village, Shameerpet Mandal, Ranga Reddy District – 500 078
Telangana, India, T: +91 98480 20242

CIN: L14102TG1991PLC013299

Pokarna Limited

Q2 and H1 FY17 Earnings Conference Call Transcript

November 16, 2016

Moderator Good day ladies and gentlemen and welcome to the Q2 and H1 FY17 earnings conference call of Pokarna Limited. As a reminder, all participants' 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 Thank you. Good day everyone and welcome to Pokarna Q2 and H1 FY17 analyst and investor conference call. We have with us today Mr. Gautam Chand Jain-Chairman and Managing Director, Pokarna Limited and Mr. Paras Kumar Jain-Chief Operating Officer of Pokarna Engineering Stone Limited.

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 point out that certain statements made in today's discussion maybe forward-looking in nature and a note to this effect was stated in the con-call invite sent to you earlier. We trust you have had a chance to receive and go through the documents on financial performance. I would now like to hand over to Mr. Paras Kumar Jain to make his opening remarks. Over to you Paras.

Paras Kumar Jain Thank you Gavin and good morning everyone. Thanks for taking the time out for our earnings conference call. Let me briefly run you through our key financial highlights for the period before moving towards discussing the key operational development.

Revenue for the first half of the year stood at Rs. 188 crore as against Rs.198 crore generated during H1 FY16 lower by 5%, largely owing to soft performance of the granite business. Of the total Rs.188 crore, Granite business generated revenues of Rs.75 crore as against Rs.99 crore delivered during H1 FY16, lower by 24%. While revenue from the business has improved on a sequential basis, overall environment continues to remain challenging especially with regard to pricing. Heightened competitive intensity continues to impair the overall performance. While things may be gradually improving but it is quite difficult to predict with certainty as to when the tide would change.

Moving on to the performance of Quartz business, the same continues to deliver decent performance. Revenues from this business stood at Rs.108 crore as against Rs.96 crore higher by 12% primarily on the back of the sustained demand momentum for our products from our global customers. Performance of apparel business remained fairly steady. EBITDA for the first half stood at Rs.70 crore as against Rs.62 crore generated during corresponding period last year, higher by 12%. Bulk of the growth was mainly on account of Engineered Stone business wherein the EBITDA margin of the business stood at 48%. Improved product mix coupled with lower input cost helped drive the margin. Interest expense during H1 FY17 stood at Rs.16 crore as against Rs.19 crore incurred during the corresponding period last year. PAT for the stood period at Rs.35 crore as against Rs.25 crore, higher by 39% on the back of improved overall performance and lower interest expense.

Moving onto some of the key operational developments; Pokarna Engineered Stone Limited exited CDR Mechanisms following the receipt of requisite approval from the corporate debt restructuring cell. Pursuant to the terms of approval of CDR Cell, Pokarna Engineered Stone Ltd. Board and shareholders approved issuance of 16 crore worth secured non-convertible debentures to its consortium lender - Indian Overseas Bank, Union Bank of India and Bank of India. As indicated earlier exit from CDR Cell will not only enable greater operational and financial flexibility but will also support our future growth plan.

Further Mr. Gautam Chand Jain was appointed as the Managing Director of the Company for the period of five years with effect from 7th November 2016 to 7th November 2021. PESL like in the past should continue to benefit from the guidance and experience of Mr. Jain and help it further consolidate on its position of being the country's largest player in Quartz surfaces business. In August we also launched an interactive application called Quantra to offer ease and comfort to our users for discovering and experiencing Quantra's rich and varied color palate on the go as well. The app launched on Android and Apple app store has been receiving good response from the customer. The decision to launch the app is in line with company's strategy of increasing brand awareness and visibility. The application offers interactive features making easier than ever for its user to discover and experience Quantra's rich and varied color palate.

Looking ahead we are cautiously optimistic of revenue and profitability improvement. Quartz business should deliver and drive the growth of the business in future. We are working towards strengthening our presence in the existing market in addition to tapping newer market as well. Further our focus on developing newer products and strengthening brand visibility should also help us maintain the growth momentum. Performance could pan out even better than what we imagine if we see positive development in Granite business as well. That concludes our opening remarks, we would be happy to answer your questions now. Thank you.

Moderator

Thank you very much. The first question is from the line of Srinath V from Bellwether Capital. Please go ahead.

Srinath V

I just wanted to find out Caesarstone over the last 4-5 years due to the tie up with IKEA has seen a reasonable amount of growth kicking in. Have you thought of tie up with IKEA or any large kind of a retailer given that IKEA has actually putting up a plant in Hyderabad—I had read a few articles—so I just want to understand how you see a tie up with someone like IKEA?

Paras Kumar Jain

As a business strategy we are open to various opportunities which comes to us, so it would be very difficult to answer a specific question whether we will be tapping IKEA or not. But in general, we are looking at the opportunities even in the domestic market. So, as and when the opportunities come into the market we will be more than willing to look at it and grab it.

Srinath V

On this question if you are looking at opportunities in the domestic market now let's assume we do put a plant outside export unit and target the Indian market, could you please substantiate what is the kind of selling and distribution infrastructure or the kind of staffing, how would the process pan out over the next 2-3 years in terms of our selling and distribution?

Paras Kumar Jain

Selling in domestic market Quartz is different from selling a natural stone because the way Quartz is supposed to be handled is completely different from way the granite is handled. So, when we say that we want to look at domestic opportunities, the opportunities can be in various forms. One can be when we open our own

service set up where we sell the product and also help in installation. Other could be when we tie up with some of the large companies who are in kitchen or bath retailing where we do the service of only supply and we don't get into installation. So typically, when we go into this process we're expected to give the training to the intermediaries which can be fabricators and installers. That's quite a marathon task because Quartz is a different type of material so at least more than six months of training in handling the Quartz is required to the installer or the fabricator. So, getting the exact number would-be difficult but to summarize it is that we need to train the people who are going to handle it whether it is an installer or the fabricator.

Srinath V

So we would have to set up a retail chain or showrooms on top of that we will have to kind of set up a man power for putting up all these end-products at the house of the customer. How will this whole thing work, so there will be multiple levels of infrastructure that we will have to put in?

Paras Kumar Jain

It's like this it's not that in every mile of the process we will invest. Like what Caesarstone does today in the other market or Silestone does is that they sell the material to a certified fabricator and certified fabricator cuts it and installs it at the client's place. So, there is not a complete connectivity till the last mile by the supplier of the Quartz. So here we can have a training sort of a session where we typically train the people on how to technically process it and install it. So, it's not that complete investment have to go till the last value chain by us.

Srinath V

Who are our competition in Asia with the Breton Technology, of course we are aware of Caesarstone and Silestone in the European and the US players, could you highlight a few names in Asia?

Paras Kumar Jain

Asia has typically two processors, one is from Vietnam called Vicostone but they predominantly sell in Australian and American market. They don't cater to the local market if you look at their financials also you will understand. Then there is another supplier who is currently having a very old generation Breton Technology plant in Oman. We don't see that as a much competition because the capabilities are different in that case. Then there is of course in Korea, a company called Hanwha.

Srinath V

How many lines would these people have roughly?

Paras Kumar Jain

Vicostone has about three lines, Hanwha has one line in Korea and I think one line in Canada and in Oman is a very small line of old generation so I don't know about the exact capacity.

Moderator

The next question is from the line of Nikhil Upadhyay from Securities Investment. Please go ahead.

Nikhil Upadhyay

Thank you Sir, first on the Quartz business, the 12% half year growth that we have seen if you can just breakup between what would be the realization and volume split if you can give details?

Paras Kumar Jain

As a process we don't give that breakup because for competition reason we want to keep those numbers not in public. But what I can say is that realization has come both from the better input cost and also from the better product mix what we have.

Nikhil Upadhyay

Better product mix would mean that the Jumbo slabs that we were working on, so have their share increased vis-à-vis last year?

- Paras Kumar Jain** When I say better product mix it means multiple things. One is the thickness what we sell whether we sell 12 mm, 20 mm, 30 mm and then it also means which price range products we are selling within that particular thickness also. Jumbo while typically as a strategy we haven't charged an additional per square foot, so we cannot say that we got better realization because of Jumbo sales. But I would say we got better realization because of the product mix which is a function of the price per square foot and also the thickness.
- Nikhil Upadhyay** Okay, second question on the granite part, so last quarter you had mentioned that we were working on a new quarry and we were working on the development of the quarry. So, any output from that, are we getting traction in terms of good product with the customer if you can just provide some details there?
- Gautam Chand Jain** No we haven't yet started realizations from the new quarry operations, still in the stage of development and also development is happening in the existing quarry. So, in this quarter also you don't see any realization coming from the improvement of the quarry's yield. We hope in the future because these are all long-term processes especially developing quarry is a long-term process. So, we hope to get better realization from the existing as well as new quarry in the future quarters.
- Nikhil Upadhyay** If I understand you then probably for this improvement would more be in FY18 type?
- Gautam Chand Jain** No we hope to get in this financial year also but I think in the next quarter, last quarter we will see the better results from them.
- Nikhil Upadhyay** And on the CAPEX plans, now that we are exited the CDR so any plans of yours on the CAPEX or anything which you have discussed if you can highlight anything.
- Gautam Chand Jain**
- Gautam Chand Jain** On Quartz actually we are yet to find at everything so you will have to wait for some more time till we freeze everything for the plant as well as the location.
- Nikhil Upadhyay** Thirdly sir, this is more of a broader question, if we divide the market which is clearly between the Breton System Technology and the Chinese technology. So, if we look at the space in which we and our competitors who avail the Breton System Technologies, is there a restriction or amount which Breton can provide in terms of machinery on a yearly basis. How many new capacities or how many players would be increasing capacity parallelly as we would be planning if you can just give some idea on that?
- Gautam Chand Jain** Unfortunately neither Breton is going to share with us nor I will be able to tell you because this is a private business of Breton because Breton is involved in various machinery manufacturing. I can only tell you is this is a huge equipment so in our experience what we have been saying is in a year maximum they can deliver about 2 to 3 lines and that can be in any part of the world depending on the discussions they have been having. But normally unless we specifically ask Breton they don't like to share, who are the people that they will be delivering machines this year.
- Nikhil Upadhyay** If we plan to do our CAPEX in Quartz like if we place the orders in December then probably by the starting of FY19 we can start the commercial production for our quartz lines?
- Gautam Chand Jain** It is typically about 18 months is what we consider always as a time depending on the orders placed and the machines shipped. But it all depends on the commitment

what Breton has prior to that and I don't think we can tell you about Breton more than this.

Nikhil Upadhyay

Lastly, on the domestic market basically taking up from the previous participant, as you had mentioned that we've already been a part of few of the good or large projects with prestige and some of the developers, so in order to develop the domestic market if you can just highlight what type of activities or what type of queries you are getting from the developer side in terms of Quartz as a product for installation?

Gautam Chand Jain

Right now actually we're focusing still on exports because right now we always have committed orders relation toward production capacities. So, we really don't spend more time on promoting Quartz in the domestic market yet. And this question is again I would like to say that we are little too early to talk about our plans how we will launch in the domestic market because I have to also keep in mind that Chinese competition that is already prevailing in the Indian market, so obviously, I wouldn't like to spell out our plans for marketing in advance before we do it. Of course there are lot of plans what Paras has already told you will be more of educating about Quartz and servicing the Quartz. But marketing again has the different plans and we will share this once we are ready to launch in the domestic market.

Nikhil Upadhyay

So in your eyes since you've been with the Quartz market for some time, so vis-à-vis the Chinese or the existing players who are there what is the biggest weakness which you see? Is it on the servicing part or is it on the product quality part where you see that they are very-very weak and probably we have a major advantage there?

Gautam Chand Jain

First we'll start with quality because the Quartz quality coming from Breton Stone plant will be different from the Chinese plant in many aspects and these aspects are including warping, scratching, color fading and scratching easily. But more importantly will be also the design possibilities, the design possibilities means the whole look of the products also will be different from what Chinese machines are able to make. So more than anything it is not just quality, not just design, color but a customer confidence because the products made on Breton technology are food-grade certified products because you must be aware that Quantra we have all the certifications required for safety of the consumer and mainly since it is used for kitchen countertops, the food-grade certification is there. In my opinion I have never seen any Chinese plant with all the food-grade certifications available. So there are lot of things which make the product unique.

Nikhil Upadhyay

On the debt part, so over the next six months with considering the CAPEX and all the things how do you see the debt moving from here? Should we be at this level or...

Gautam Chand Jain

No, presently as we see we will be reducing the debt but when we plan for expansion again we will first preferably look at the cheapest mode of funding of the expansion projects and it will depend on what we get on the table. Right now as it stands without expansion we will be trying to repay the debts as normal regular business but we may definitely have to go in for raising money for expansion.

Moderator

The next question is from the line of Pranav Mehta from Equirus. Please go ahead.

Pranav Mehta

Just wanted to know what would be the maintenance CAPEX that you would be doing for next two years if you are not planning for Quartz CAPEX, can you quantify the number?



Paras Kumar Jain Maintenance CAPEX in this type of plant is actually a very limited number so one doesn't have to really bother we can get it easily expensed in the balance sheet. It's not a big number.

Pranav Mehta And what about interest and tax rates that you are seeing for next two years, average interest cost and what kind of tax rate can we expect?

Gautam Chand Jain Interest we had already made an application to our existing bankers for converting the loans to foreign currency loans so the moment we get this sanctioned we hope to bring down the rate of interest. So unfortunately, due to different reasons the bank are not able to process this kind of request. They have other priorities for the time being. But we hope once we get the sanctions for foreign currency loans because we are full supporting in terms of foreign exchange so we don't have to go for hedging and all. So obviously there will be some reduction in overall interest burden.

Pranav Mehta And what about the tax rate?

Paras Kumar Jain At Quartz level we are looking at the MAT and on a Granite level we will have a full tax rate.

Pranav Mehta About the EBITDA margin that you have reported, in both the divisions you have seen the EBIT margins improved, so are they sustainable or what would be the sustainable rate of EBIT margins that we can take?

Paras Kumar Jain As I said in the Quartz the EBITDA levels are predominantly driven by the product mix and also because of the current low polymer prices which is because of the crude oil prices. I'm not sure how long the crude oil prices will be at this level What we look at it is that EBITDA above 40% is definitely healthy margin in Quartz business.

Pranav Mehta And what about Granite?

Paras Kumar Jain Granite business I think we should be able to maintain what we have reported. We don't see a substantial improvement happening currently because of the competition intensity what we see. So I think our efforts towards maintaining the current margin would be required than actually adding up to it.

Pranav Mehta You had seen some competition from the Brazilian player so is it subsiding or still it is a major threat for you in granite?

Gautam Chand Jain Now there is a little improvement on that front because the Brazilian currency has appreciated again. So the inventories in American market are also now getting reduced. But unfortunately the competition still exists because of the pricing which will also take some more time. But going forward competition will remain; now what we have seen is because there is a huge installed capacity versus the demand in Brazil. So the manufacturers are looking at somehow pumping the products in the market at lower prices, so this will continue for some time unless there is some huge growth demand happening due to additional projects and constructions.

Pranav Mehta How do you see the countertop market in the US panning out and the housing market as such? You are seeing lot of improvement on quarter-on-quarter basis or the demand is remaining...

Gautam Chand Jain In our experience we see it is little consistent, actually there is not really big growth nor there is a dip in the market. It is the consistent. It's good actually, in that sector

we don't find any challenges in terms of looking at any recession yet or any huge growth possibilities so we don't see, so it's the consistent business. Housing is consistent in American market but we don't know with the changed political scenario what will be the near future.

Moderator The next question is from the line of Karthikeyan VK from Suyash Advisors. Please go ahead.

Karthikeyan VK I have three questions, one is could you talk about what is the growth options available meaning growth capacity available in the Quartz business till you expand capacities I mean the question that keeps coming back so please don't mind.

Gautam Chand Jain I have also answered this question earlier, right now the only option we have with the existing plant is to improve our efficiency and improve our product mix where both together can give us some growth till we do an expansion. Because this is the online processing facility where we cannot add additional machines in between, so only improvement that we do from time to time is replacement of some equipment in the line which can improve the efficiencies, some new processes which can improve the efficiencies and some new processes which can improve the products also. So that is what we are looking for the time being till we don't go in for expansion.

Karthikeyan VK From the current run rate of roughly Rs.200-Rs.210 crore for the current capacity give you revenues of about Rs.300 crore I'm just trying to put a number to it?

Gautam Chand Jain I don't want to be so ambitious but I would say safe to talk would be about 10% to 15%.

Karthikeyan VK Year-on-year growth is what you are referring to?

Gautam Chand Jain Yes till we do expansion.

Karthikeyan VK Could you also talk about some business development initiatives especially distribution tie-ups you spoke about geographical diversification also, could you talk about this if not names at least could you talk about regions where you're trying to...

Gautam Chand Jain I would like to share that we just started business with a company in UK. In the show we meet lot of customers and this is work-in-progress like I would say because it's not easy for us or the customers to start business immediately across the rack. They have to understand our product range, pricing and we have to understand their set-up and the marketing advantages which they have and then we look at the financial stability of the companies. So this process actually is a continuous process. And as the business prudence we don't want to definitely share geographical areas and customers with specific names because we wouldn't like that when we explore some new markets and new customers that we don't want anybody else to reach there and start the business before we start itself.

Karthikeyan VK Just to get a feel on this would it be reasonable to assume that you have added new customers in the current financial year?

Gautam Chand Jain Yes that is always a process. But there will be a size of customers also depending on sometimes we start with small business, sometime we start with small companies and sometimes we look at tying up with big companies. So this is an ongoing process and we do definitely keep adding new customers of course and



we also retain old customers that's more important for us, so that's the process continue.

Karthikeyan VK And the last question is more topical question given the so-called cash crunch that's come about because of recent initiatives of the government, are you seeing any challenges on the transporter's side or whatever because you move lot of heavy material?

Gautam Chand Jain Definitely there will be some in the market. But we as a specific case I don't think have much problem because we don't deal with small time transporters, we don't deal with companies who do cash businesses and all. It's not a big deal for us but we are part of the country so like everybody we will also have some challenges.

Paras Kumar Jain A knee-jerk reaction will be there everywhere but I don't think we have to worry about it.

Moderator The next question is from the line of Kaustav Bubna from SKS Capital & Research. Please go ahead.

Kaustav Bubna I just wanted to understand the susceptibility of your granite export business to the appreciation and depreciation of the Brazilian Real compared to the US dollar because it's more volatile than the Indian rupee when you compare it to the US dollar. So let's say it's appreciated right now but since 7th November whatever happened in the US for the political reasons and the Real is again depreciated about 9% which I understand it's extremely short-term but I am just considering what if this appreciation-depreciation gap widens again what should we expect? Is there more weightage excess capacity in Brazil being dumped into the United States or is there more weightage of currency depreciation affecting Indian exports, so could you give some light on that?

Gautam Chand Jain It was a mix of both actually because that capacity is already there so everybody wants to use their capacity and the only way they can do is by selling in the nearest market and the market which can absorb this kind of product so is American market. The currency fluctuation has also affected but I have just come back from US and now people tell me that the currency story is no more really worrisome but the worrisome story is about Brazilian dumping more material even now in the American market. But that is going to continue I don't think this is a thing that we can insulate ourselves that this will not affect us but this will always affect and we have to fight this competition when we are in the export market.

Kaustav Bubna So I am considering you guys have obviously thought about this since this is your business. What targets do you have in terms of sequential improvement in your granite business because you since you know it is a dumping problem and you must be having some better estimates of how you would tackle the dumping problem since it's not only a currency depreciation problem. So do you have any outlook on how you will sequentially improve your granite business, will it continue sequentially improving from here on now?

Gautam Chand Jain There are two things that we will be focusing more on will be looking out for additional production in the quarries because we believe that quarrying strength which we have is the one which will take us forward and we will be focusing on improving our production in the quarries and also we will be looking at meanwhile getting into the domestic market for granite which will also be one area which we hope can give us additional numbers.



Kaustav Bubna So in terms of the Quartz business I understand this time post expansion your CAPEX plan what level do you think you can get normalized revenues in that granite business?

Gautam Chand Jain Honestly speaking I would still like to not talk about expansion numbers, strategy, marketing today.

Kaustav Bubna It's still far of away?

Gautam Chand Jain I wouldn't say far away or anything but I would say that we will be able to share everything once we freeze everything how and what we're going to do. So if we are not able to share great means that we are not ready to give you that information. You have to wait for this for probably for some more time, maybe if we are ready we will not wait for the quarterly conference that we do. We can even make announcement in between.

Paras Kumar Jain I would rather say it's premature to talk on that and we will come back to you as and when we think that we have dotted the I's and crossed the T's.

Moderator Thank you. As there are no further questions from the participants I now hand the conference over to the management for closing comments.

Paras Kumar Jain We thank everybody who has participated on the call and look forward talking to you again on the next earnings conference call. Thank you.

