



May, 25<sup>th</sup>, 2017

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.

**BSE Scrip code / NSE Symbol:** 532486 / POKARNA

We refer to above and hereby submit the transcripts of Q4 & FY17 Earnings Conference Call, conducted on May, 16<sup>th</sup>, 2017.

This is for your information and dissemination.

**For Pokarna Limited**

  
**Vinay Paruchuru**  
Company Secretary



## **Pokarna Limited**

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# Pokarna Limited

## Q4 and FY17 Earnings Conference Call Transcript

### May 16, 2017

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**Moderator**

Ladies and Gentlemen, good day and welcome to Pokarna Limited Q4 and FY17 Earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, Sir.

**Gavin Desa**

Good day everyone and welcome to Pokarna Limited Q4 and FY17 and listed investor conference call. We have with us today Mr. Gautam Chand Jain, Chairman & 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 certain statements made in today's discussions may be forward-looking in nature, and a note to that effect was stated in the Concall Invite sent to you earlier. We trust you have had a chance to receive and go through the documents on financial performance and also would have gone through the same.

I would now like to hand over to Mr. Paras Kumar Jain to make his opening remarks.

**Paras Kumar Jain**

Thanks Gavin. Good morning everyone and thank you for taking the time out for our earnings conference call. Let me briefly run you through our key Business and financial highlights for the year before we begin the Q&A session.

Revenues for the quarter stood at Rs. 100 crore as against Rs.103 crore reported during corresponding period last year, while on an annual basis the revenues stood at Rs. 380 crore as against Rs. 399 crore generated during last year, lower by 5%. The decline was primarily owing to the soft performance of granite business.

EBITDA for the quarter stood at Rs. 36 crore as against Rs. 36 crore, while on an annual basis the same stood at Rs. 142 crore versus 139 crores higher by 2%. The improvement was largely on the back of improved product mix and positive exchange rate. Margins for the quarter stood at 36% as against 34%, while for the year the same stood at 37% as against 35%. Higher proportion of value accretive Quartz business in the overall revenue mix resulted in margin progression for the year.

PAT for the quarter stood at Rs. 18 crore as against Rs. 6 crore while on an annual basis the same stood at Rs. 70 crore for the year as against Rs. 51 crore generated during last year. Profitability expansion despite revenue moderation was owing to steady performance of Quartz business.

The Board also approved sub-division of equity share of the Company of face value of Rs. 10/- each into 5 equity shares of face value of Rs. 2/- each. Further it also recommended dividend of Rs. 3 per equity share of value of Rs. 10/- each.



The Board of Directors in principally approved Independent committee / Audit Committee recommendation to sell off Apparel business. The decision is line with the Co.'s strategy of focusing on its core businesses which are Granite & Quartz. Our focus for Apparel business in recent times was primarily directed towards containing its losses. The Sale of Apparel business is subject to finding buyer / investor, receipt of acceptable offer & other requisite approval, consents and clearances of bankers / shareholders & other Institutions, as may be required.

Moving on to business wise performance – multiple headwinds like heightened competitive intensity, weaker realisations and excess supply impacted the performance of granite business during the year. Realisations remained under pressure owing to supply push from industry players across geographies. Prices of all type of natural stone like granite across all factories remained sub-par – barely sufficient to meet their production costs. Taking a view of the current scenario and given the Company's philosophy of focusing on profit rather than chasing top line, we decided it was prudent to not be a participant in the current scenario even if it meant lower revenue generation in the near term. We are confident that such strategy will keep us in good health in the long run. However, as a tactical move, the Company has decided to fine tune its model by focusing more on the customized "cut to size" segments wherein realisations are relatively better. Such a move will help us tide over the current situation without much impact.

Coming to Quartz business, the same continued to deliver steady performance on the back of strong demand for the product. Preference for Quartz continues to remain strong amongst customers in turn fueling the growth for the business. Further, our effort towards improving product portfolio by launching new and innovative products has helped us maintaining the momentum in the business.

Performance of the business over the coming quarter may remain soft owing to planned shutdown for 15 to 18 days (approx.) in quartz business for maintenance purpose.

Performance of apparel business remained muted. To conclude, I would like to reiterate that we continue to remain positive about the business. While near term challenges continue to remain for granite business, we are confident in our ability to overcome the hurdles and deliver better performance over the coming period. Our strategy of focusing more on customized "cut to size" products should help us address the current situation. Quartz business continues to remain strong on the back of healthy demand; further our plans of increasing the capacities and entering into a partnership with IKEA should further consolidate our leadership position. Further, our attempts towards increasing our reach and improving the brand visibility should help us develop the business even more going forward.

That concludes our opening remarks. We would be happy to answer your questions now.

**Moderator**

Thank you very much. Ladies and Gentlemen, we will now begin with the question and answer session. We have the first question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

**Rajesh Kothari**

Sir, on granite business, if you can just tell us what is the current capacity utilization and how do you see the utilization over the next two-three years, because you have mentioned that you plan to improve utilization and take advantage of the growing worldwide demand, so if you can just throw some light on with the cut-to-size product



is growing faster than the normal granite and what is the growth and how we are positioned for that?

**Paras Kumar Jain**

Giving you exact number may not be right in the open forum because competition is also watching us, what I can tell you in the granite side is that we have enough capacity to meet whatever aggressive plans we have. In granite, we have a good amount of capacity available with us to realize from the factory and also our focus on cut-to-size has been increasing for the reason that it helps us to service the market demand for different product range both in India and the overseas market, and also we are focusing more on the granite mining side. We just started a new mine also and the capacity utilization has to come from all the three brackets of the business, right from the slab business, the cut-to-size business and the mining business, so giving the numbers currently would not be a right thing to do, but what I can conclude in saying is that we have a good amount of capacity left to realize.

**Rajesh Kothari**

I thought even your current capacity without new mine was not fully utilized, so if you can just highlight the new mine when you say that it is added, so if you can just tell whether it adds to your product portfolio, the new mine, how it makes difference to your business proposition?

**Gautam Chand Jain**

There is no way to calculate the capacity utilization in the mines. What we normally do is based on the orders that we get accordingly, we excavate the material in different mines, so no mine can be quantified as capacity utilization percentage and the new mines are always ongoing processes, so this new mine will definitely add to the portfolio of the color palette that we give to our customers and also that quantity will be added once we start full time operations, but this is subject to acceptance from the market and depending on the order that we receive, the quantum will be excavated, so honestly in granite, we cannot give you the percentage of actual capacity utilization.

**Rajesh Kothari**

On pricing front, would you like to add something on the pricing outlook because there has been challenge from Brazil and Indian players?

**Gautam Chand Jain**

Pricing is definitely going to be challenged for some more time, because the Brazilian continues to, they are flooded with excess capacity and they continue to flood the American market where we predominantly sell our finished products, so the pricing will be under pressure for some more time looks like and if the new color is there where there is no competition, probably we will be able to realize better prizes, but this again will be also subject to the value additions that we propose to do in cut-to-size as well as texturing of the surfaces, so we are looking at trying to make up the loss by doing value addition in the product actually.

**Rajesh Kothari**

What is the current value addition, revenue mix in your granite business?

**Gautam Chand Jain**

The pricing depends on the color to color and from time to time and the quality of the slabs, so actually to be very honest, in the natural stone business, it will never be consistent so that is why we do not quantify the percentages that you ask because what is right today will be wrong tomorrow, what color is selling at a higher price will sell tomorrow at a lower price and what is selling at lower price can fetch us a better price if the production quality is good.

**Rajesh Kothari**

How one should look at this business, from our perspective how we should analyze this business?

**Gautam Chand Jain**

In my opinion, natural stone business will always remain, there is no risk to the natural stone business ever because there is no parallel product to natural granite, so it is all a subject of color, subject of the market, competition, but for outdoor use,



granite is the only right material, so this will continue to be used for outdoor, but whereas in American market normally it is used for more for kitchen counter tops where now the market is replacing granite with quartz, so there will be a mix of growth as well degrowth in different segments.

**Moderator**

Thank you. We have the next question from the line of Vinod Malviya from Florintree Advisors. Please go ahead.

**Vinod Malviya**

My first question is on the quartz growth, if I just to do a back of envelope calculation, the utilization level in the quartz comes to around 65% to 70% and we are just quoting at 10%, so is this like the maximum growth in the quartz what we can see is only 10% because this time your peer in the US has grown by 17 to 18% in the US market, so I do not think there is a constrain of capacity from your end, is there some other issues in the growth of quartz?

**Paras Kumar Jain**

Capacity calculation while you have done a back of envelope calculation, what happens is that our focus has been on improving the product realization than actually making more number of slabs, because at the end of the day what matters is what is the per square meter realization, so the competition if it is growing at 17 to 20%, if you look at Caesarstone's growth in US, it predominantly comes from the two lines which got stabilized after a period of almost one year now, so the growth is of 17-18% what you are talking is coming from the new capacities which they have added, so typically a capacity utilization is a function of various things, what is the thickness of the product you make, what type of operations you are carrying out in a product, so that determines, when I say that my capacity is let us say for theoretical purpose 85%, it means that for certain medium-to-basic product that is 85%, and if I am doing more value addition to the process and the product, the capacity utilization probably comes down and then but at the end of the day, the realization matches that.

**Vinod Malviya**

In case if you are going for more value-added product then in your case, the margin should have improved in the quartz business which is not visible at least as of now?

**Paras Kumar Jain**

You should also look at what are the prices of the raw material, look at the prices of the polyester, they are strengthened, the crude prices has got strengthened in the last one year. There have been other overhead increases, so all those are still observed and we are actually maintaining margins, which are almost better than the past year. I think if you look at the other competition, if you go and analyze the other competition, you will still see that our margins are the best in the industry.

**Vinod Malviya**

Overall like quartz will continue to grow at 10-12%, there is no capacity constraint from your end as of now at least for FY18?

**Paras Kumar Jain**

Till the time we add a new line, we will not have a humongous amount of capacity getting added, 10 to 12% is the growth which we are looking from the quartz till the time the new capacity gets added, so whatever comes in is going to be bonus.

**Vinod Malviya**

The second question is on the granite business, the granite business has shrunken from 45 to 50 crore of quarterly run rate to almost 35-40 crore, so do you see a further downside drift because now rupee has appreciated further, so because the pricing pressure and you are not going to reduce your prices considering you want to maintain your prices and realization, so do you see a further downside risk in your granite business?

**Gautam Chand Jain**

I do not think it will go below this, because this is the optimal production that we are doing with the lowest strain on the market because we are not changing the prices drastically. I do not think we should go below this, if at all certainly we look forward to at least some growth in the granite business also in the coming period.



**Vinod Malviya** Last question on the granite business margin, you EBIT margin sequentially has declined from 24% to 22%, any particular reason for that?

**Gautam Chand Jain** In granite as I was telling earlier, it is a matter of quality of the production that comes from the quarries, and if the blocks produced are of first quality then the realization is better, so to quantify in granite business would be very difficult because it is a natural product and when we open new quarries, the product is different from the existing quarries that we operate when we go below, again the quality of the product comes of a much lower quality with cracks and patches, so it all depends on the quarry to quarry quantity of production that comes up, but prices more or less remains the same in the quarrying operations and again it depends on the net productivity and the quarry based on the expansion and the improvement we keep doing in the quarries, so net profit again will be varying from time to time.

**Vinod Malviya** So it will not go below 20% because at least 20% EBIT margin has been maintained for?

**Gautam Chand Jain** Yes, if you see any peer competition even in granite, our margins are the highest you can see, but again it will depend, it is a natural material, so it depends on the yield that we get out of the blocks and the quarries, but we are always trying to maintain minimum operations of where we should get this much of realization.

**Moderator** Thank you. We have the next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

**Pritesh Chheda** I have two questions, one on the quartz business specifically since this quarter we have seen a run rate improving to Rs. 58 crore, and we had de-bottlenecking which was done a quarter and half back, so there is some improvement in run rate, can you tell us what can be the peak run rate possible in the current operation of facility that we have, that is one question. Second, we were going to renegotiate the cost of debt and you know swap the debt so what is the status there and what kind of interest cost saving is possible in FY18?

**Gautam Chand Jain** We are looking at actually as I told earlier also that where we have a consortium of banks who will finance the quartz business, so the lead bank has already considered conversion to foreign currency loan, but unfortunately the other bankers have not reconfirmed their acceptance to convert to foreign currency because of their internal issues, so we are still waiting for that.

**Paras Kumar Jain** We expect the run rate to be around Rs. 60 crore.

**Pritesh Chheda** That is kind of peak possible at this juncture?

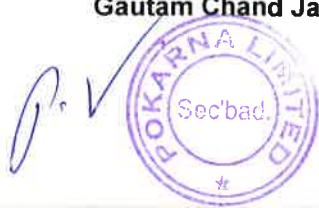
**Paras Kumar Jain** Yes.

**Pritesh Chheda** Is there any scope for further improvement than this number?

**Paras Kumar Jain** Scope is always there to improve, but it would be difficult to comment on that because you carry a good amount of inventory also, so we are able to get some inventory also liquidated then that gets added to it, otherwise this is what we believe should be the number.

**Pritesh Chheda** On that second question, I just wanted to ask what kind of absolute interest cost saving is possible on that and when it should start flowing to the company?

**Gautam Chand Jain** Once this conversion happens at 300 basis points will reduce.



**Pritesh Chheda** When should it start flowing in, Sir?

**Gautam Chand Jain** The lead bank has already confirmed, we are actually waiting from other two banks.

**Pritesh Chheda** Lastly, I just want to check the new capacity, when should it be available for production?

**Gautam Chand Jain** We are planning and we are hoping that it should be up and running in the second quarter of the next financial year.

**Pritesh Chheda** Second quarter of FY19?

**Gautam Chand Jain** Yes.

**Moderator** Thank you. We have the next question from the line of Dhruv Agarwal from Crescita Investment Management. Please go ahead.

**Dhruv Agarwal** My question is regarding the maintenance work that you have mentioned in your website, so for how many days will you be stopping work at your quartz facility?

**Gautam Chand Jain** Our technician from Italy have told us that they may take between two to three weeks, so it is already going on, we hope to do it little more early provided they work more over time and that is what we are trying to work on.

**Dhruv Agarwal** This is exclusively for the quartz facility?

**Gautam Chand Jain** Yes, exclusively for the quartz facility.

**Dhruv Agarwal** Just one more thing is that we hear news of new players being getting added to the quartz business because the margins here are lucrative and the demand from the western countries is high, so how will you maintain your competitive intensity in case new players get in and how do you with your granite business also being weak right now from the previous size, how do you see the situation and how will you tackle it?

**Gautam Chand Jain** The competition is already there and it will continue to keep on adding because there are two important things that the market shift moving from granite to quartz is also fueling more and more competition to come in obviously, but one biggest advantage that we have is we work with the original patented technology of Breton where we are the exclusive participants. All other companies who are getting in to this business will be working with the Chinese machines where the quality of the product and also the outlook of the product will be different from what we make, so competition is going to continue to grow, there is no doubt about it, but we are geared to meet our competition for two reasons, we have a very established customer network and we are really strong in product making and also backed by the technology that we have, I do not think we need to worry about the competition but every business definitely will be moving forward with competition and we are geared to take up.

**Dhruv Agarwal** One last thing Sir, like in your partnership with the IKEA business, how is the development going on there, is it already adding to the revenues?

**Gautam Chand Jain** IKEA propose to open their first store in first quarter of next financial year is what is the latest update, so IKEA business is going to, I do not think we are going to get any substantial business during this financial year. We look at IKEA business to really give us growth in the next financial year.



**Moderator** Thank you. We have the next question from the line of Abdul Karim from HDFC Securities. Please go ahead.

**Abdul Karim** The quartz market scenario in US over the last three-four quarters is very peculiar because Brazilian players are major concern for the market share, so please update on the same?

**Gautam Chand Jain** You are talking about quartz, let me clarify to you that Brazilian players are not there in the quartz business, they are only into granite business. The Brazilian players effects only the granite markets, quartz fortunately, unfortunately either it is other established players worldwide or it is Chinese players from China, and some Chinese machines supply to other parts of the world, but the difference between the Breton stone plants and Chinese plants is in the product as well as the capabilities of making a product itself is totally different. We do not see any problem from Brazil, but we will continue to have competition coming from other quartz manufacturers worldwide.

**Abdul Karim** Second thing receivables during this year declined from 73 days to 64 days, on other front inventory days increased from 82 days to 94 days, what was the reason behind this?

**Gautam Chand Jain** It is a good thing if receivables is reduced, but the inventory always it depends, because many times it is an inventory, small percentages will always vary because sometimes the calculate are not accepted by the shipping lines, sometimes the customers hold the dispatches for few days, so the percentage in real terms is not so great that we need to really worry about. Inventory again is a subject of customer's acceptance, deliveries of their orders, sometimes we also have problems in the shipping so that some container remain at the fag-end time, so there will be an added inventory visible.

**Moderator** Thank you. We have the next question from the line of Amish Kanani from JM Financial. Please go ahead.

**Amish Kanani** Sir, I have two questions, one is if you can explain the nature of exclusive license that we have for Breton stone and the presentation says we have exclusivity till 2020, so if you can just to the extent possible explain the nature of license and Breton stone how many licenses are there may be say worldwide for this technology and second is the funding of the CAPEX, it seems we are taking 250 crore of debt to fund this CAPEX, which would actually double our debt at an absolute level, considering that we are coming out of CDR just now, does it sound risky thing again and how do you see that financial leverage part of the balance sheet post the expansion?

**Gautam Chand Jain** I will start your last answer first because as far as funding for the new plant is concerned, we already we have in hand sanctions from our lead bank and CDR story has now become an old story because we already come out of CDR, we have settled everything. As far as the exclusivity is concerned, Breton normally do not like to work with new players in any case throughout the world. They continue to keep exclusivity with the existing business partners they have already, and our exclusivity is signed till 2020 that is again based on mutual understanding that normally within next three-four years every company puts up expansion and they continue with their exclusivity. In earlier case, though we had signed it for five years, but they continued exclusivity for 10 years with us right now and that is how now again we have signed exclusivity with the expansion of new plan, so we hope that we will continue to be exclusive partners with Breton in the future also.

**Amish Kanani** Sir, is the technology partnership is revenue share and/or some upfront payment?





**Gautam Chand Jain** There is no revenue share. It is exclusivity ongoing knowhow knowledge is passed to us with new innovations whatever happens in their developments and assistance for efficient productivity and other things, but there is no revenue share model. It is part of the deal when we buy the whole project itself is included in it.

**Amish Kanani** Just to reemphasize, you are saying you would not worry too much with the Rs. 250 crore of debt that we have added, are we comfortable with I think 2:1 debt equity is what you are saying?

**Gautam Chand Jain** The choice is either you go and raise money from the equity or you continue with the existing bankers. For us, we thought that continuing with bankers is cheaper option than to go with new equity again.

**Amish Kanani** Sir, that sounds comfortable. The only thing is it possible to give us a range of cost of funds that we are having, old versus new?

**Gautam Chand Jain** The foreign currency loan will be this time that we do not want to go in the future for conversion, so we have taken the new sanction for the new proposed project directly in the foreign currency loan itself. Actually it will be prevailing at the time of disbursal, so it will be about 5 to 6% rate of interest.

**Amish Kanani** It will be LIBOR plus something.

**Gautam Chand Jain** Yes, LIBOR plus something, based on the days of our disbursal.

**Amish Kanani** We are naturally hedged, right?

**Gautam Chand Jain** Yes.

**Moderator** Thank you. We have the next question from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

**Nikhil Upadhyay** On the capex side of it Sir, are we closed with the land acquisition for the new plant or where are we in that process?

**Gautam Chand Jain** We are almost close, I would say because we have identified, we have agreed locations, government has also allocated except final pricing is not finalized by the government yet, so I would say that in next couple of days, we should be through with the final acquisition and occupation of the land itself.

**Nikhil Upadhyay** If I understand correctly, we would be getting the equipment from Breton by August?

**Gautam Chand Jain** No, it will start from August because it is a huge equipment. The first delivery will be shipped out of Breton in August, by the time we get them in Hyderabad, it should be end of September-October period.

**Nikhil Upadhyay** Secondly, Paras Sir mentioned that with post the debottlenecking and everything, we can do a run rate of around Rs. 60 crore, when we talk of this run rate of 60 crore, this includes the value addition from the larger slabs which we were looking at making or does it include only from the current product mix we can reach the Rs. 60 crore?

**Paras Kumar Jain** Nikhil, if you recall our previous discussion and comments also, as a strategy we have gone to the market at the same price whether it is a regular slab or a jumbo



slab what we call it as. We do not charge any additional premium for that size. When I say that we have a run of 60, it means the run coming from the slabs.

**Nikhil Upadhyay**

Secondly, in prior some of the questions, you mentioned that some of the cost factor like rupee and the oil and the raw material cost have been a bit of a negative for us in the last quarter, for the year as a whole for FY18, do you think that this 43% or in the range of these, we can maintain or do you see some pressure can come up here based on the pricing?

**Paras Kumar Jain**

Currency definitely is a factor if you see almost 5%, more than 5% currency has already lost, so whatever the net gain which was coming in through the currency whatever is the change in the currency that will take away that, and we believe that the currency should be in the range of 62.50-67.50 across the year with gains coming in the third and the fourth quarter, but currency is a factor. I do not think we can do much about it and resin prices definitely have firmed up in the recent past and could probably taper in the next couple of quarters, but I think margins would definitely be impacted by whatever is the impact coming in from the resins and the currency, so while we will do our best to manage it, but there could be some erosion which could happen.

**Nikhil Upadhyay**

In the presentation, you mentioned new mine which was basically the Kashmir color, so if I understand correctly in Q2, Q3 also we had opened a new mine regarding which was for a black stone granite, so is it the same mine or is it further addition to that mine?

**Gautam Chand Jain**

I do not recollect or recall about this opening of a black mine, this is the one mine which is the only mine which we actually opened and exploration has started and now we are getting into commercialization shortly because in India mining is not an easy subject, a lot of challenges political, social, economic, so one has to handle everything, so this has just been going through the exploration phase and it started putting the material in the market, so we are now in a testing phase now.

**Moderator**

Thank you. We have the next question from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

**Nisarg Vakharia**

Just wanted to ask what is the amount of capex that we have done this year?

**Gautam Chand Jain**

You are asking on quartz or granite?

**Nisarg Vakharia**

Sir, I am asking for both.

**Gautam Chand Jain**

Actually, granite we have done a capex of almost Rs. 34 crore that includes quarrying as well as the processing unit, and quartz actually there is no major capex as such than the capex of Rs. 5 crore on packaging and finishing machines.

**Nisarg Vakharia**

The Rs. 34 crore capex, how much of it is maintenance and how much of is geared towards growth or all of is geared towards growth?

**Gautam Chand Jain**

No, actually there is a mix of, Rs. 34 crore includes almost Rs. 12 crore in one unit and another Rs. 11 crore in another unit and about Rs. 11 crore in quarry. In the units, because our processing units have become almost 20 to 25 years old, so we have added some balancing equipment and also added some storage capacities and all that, and in the quarries, we have replaced mainly excavators and bought in new dumpers and the block lifting machines, so this is basically high capacity equipments so old machines are almost worn out, so we will be selling off those old machines and these are the new machines to replace the old machines. Definitely growth also



because some of the machines we will deploy in the new quarries, so that will also help us in some additional top line coming from the quarries and also this balancing equipment at the factories will give us some top line and bottom line growth.

**Nisarg Vakharia** Sir, this second quartz capex which we are doing, what is the top line according to you, we can do at the peak?

**Gautam Chand Jain** We have projected as 60% capacity utilization in the first full year of operation, which will actually be half year of next year's financial year and we were expecting depending on the product mix because we are trying to do some very difficult new products there, so the volume maybe little less, but the realization will be more in terms of per square feet realization, so we will be looking at about the Rs. 100 crore in the next financial year coming from the new plant for top line.

**Nisarg Vakharia** What can it be at the peak, Sir?

**Gautam Chand Jain** The peak, we will be looking at about definitely 250 plus.

**Nisarg Vakharia** Margins will be higher than what you are doing currently?

**Gautam Chand Jain** Yes, we hope because there is lot of new innovation that we are incorporating in this new line, which will in turn impact the first of its kind in the world, so we definitely hope, but they will also be not so easy, they will be little difficult to do, but we are hopeful that we will definitely end up with better margins.

**Nisarg Vakharia** Sir, over a longer-term horizon let us say over five-eight years, after you have successfully commissioned the second plant you can see yourself putting up another line and growing this business even more?

**Gautam Chand Jain** We are always optimistic and also our facilities are geared to add capacities. This one will be definitely even much bigger than the existing Vizag capacity plant and also the possibility for addition will be much more easier than what it was today.

**Moderator** Thank you. We have the next question from the line of Karthi Keyan from Suyash Advisors. Please go ahead.

**Karthi Keyan** One question related to your quartz expansion, Sir, what would be the geographical mix as you go ahead, you guided for a 60% utilization kind of a number on a full year basis, so from 75-80% of revenues coming from USA, how do you see the mix evolving, geographically?

**Gautam Chand Jain** We will try to penetrate different geographical markets of the world. Of course, we will continue to focus on American market because we are well recognized and we are strong there, and the product is very well accepted now and the growth of this product is much more than any other product in American market, but then we will not ignore the other markets. We will try to expand to unrepresented areas and also into bigger capacities, we expect from the existing other represented areas other than US also.

**Karthi Keyan** Any specific progress that you already made that you can share with us, Sir, in terms of say new tie ups or whatever on the distribution front?

**Gautam Chand Jain** We have a very good network in UK now and we have also good market in Palestine and some other markets, so we will continue to explore even the unrepresented markets like Africa or Australia and other countries.



**Karthi Keyan** There is sufficient visibility for you to achieve the kind of utilization that you spoke about just a minute ago, Sir?

**Gautam Chand Jain** Yes, of course.

**Karthi Keyan** The second question is the relationship with IKEA, is that to begin with limited to India or is that intended currently only for India, could you share some thoughts on that?

**Gautam Chand Jain** To begin with, we are exclusive business partners for IKEA in this product category and right now we have agreed for only Indian market, but there is a possibility that we expand this relation to other countries.

**Moderator** Thank you. We have the next question from the line of Pranav Mehta from Equirus Securities. Please go ahead.

**Pranav Mehta** Sir, just wanted to understand on the tax rate part of your P&L, so for FY18 and 19 what kind of tax rate can we expect from both the divisions?

**Gautam Chand Jain** We will be in the 25% category. There should be a likelihood of some changes based on the GST, which we cannot quantify today because it will change the whole game, probably this will also affect our business for the domestic segment that we plan.

**Pranav Mehta** Sir, related to the same, are you expecting GST rate to be lower than currently you are paying?

**Gautam Chand Jain** Unfortunately nobody can predict it, but we do not know, we will wait for another few days I think.

**Pranav Mehta** Sir, about this cut-to-size in granite, what kind of realization you will be able to get from this compared to the current slabs that you are supplying to the US markets and other markets?

**Gautam Chand Jain** Slabs is another market and cut-to-size is a different market, it all depends on what kind of cut-to-size projects we will take up and what kind of value addition will happen, in texturing and then cut-to-size or just cut-to-size, it can be making different products, so the margins will always depend on what is the end product that we are going to make, but we typically look at additional 25% margins on the price of the slabs that also involves the outflow of the labor and the equipment and consumables, so right now we are looking at definitely additional margin only in the cut-to-size vicinity to be more than 15-20% addition to the slabs.

**Pranav Mehta** Sir, about this on the Brazilian players, they are currently dumping a lot of granite in the American markets and due to appreciation of rupee, do you think that we will face some more problems apart from what we are currently facing going forward six to nine months from now?

**Gautam Chand Jain** It will be in the same range, I do not really see anything more than this because eventually what color our people are used to selling of Indian origin, that color has become popular and they will need those colors in any case, but when competition will continue from Brazil for sure because they have more mining, more colors and big installed capacity for processing also, and close vicinity to American market gives them a different advantage.



**Pranav Mehta** Sir, related to the same, currently I had heard somewhere that the American market are preferring Indian colors compared to the Brazilian colors, so any update on the same?

**Gautam Chand Jain** It is not like that, unfortunately in India we have very few natural granite colors compared to the Brazilian colors. Brazil has numerous colors and every day you find a new quarry coming up with a new color, which is not the case in India. Indian mining laws are very different from the Brazilian mining laws and the natural deposit itself they are blessed with more colors and better colors, but then some of the colors that India has, the advantage is they are available at a cheaper price and consistently available, so those colors still sell in American market, so this will continue because nothing will stop the other guys to eat away, but definitely the competition will continue.

**Moderator** Thank you. We have the next question from the line of Kunal Thanvi from Equitymaster. Please go ahead.

**Kunal Thanvi** As we know Sir, IKEA is very bullish on India and Pokarna is very well placed to enter the Indian markets with IKEA. In fact, the dominance of Caesarstone in US and Canada was significantly improved after IKEA got them as an exclusive partners in 2013, so I have two questions there. How do we look at Indian markets, actually how mature they are to accept the premium replacement to granite and what if IKEA fails to make a big impact in Indian markets for any reason, do we have other plans to grow independently in Indian markets to put simply how would Pokarna be B2C player in the Indian market?

**Gautam Chand Jain** IKEA will be like any other customer to us, but it does not mean that we will be totally dependent on IKEA for business. We have our own plans to service other customers, other segments in Indian market also in future, so of course every customer, new customer or additional customer adds business, but that does not mean that we depend on one customer which is not the case even in American market, we do not work with only one customer, we have various customers and we continue to add new customers that is the way to grow.

**Kunal Thanvi** The reason I asked this question is in the US market there is a good acceptance of quartz now, but Indian markets being new to quartz what kind of traction we are looking at their and if IKEA is not there, how we plan to gain that traction in the quartz business?

**Gautam Chand Jain** We plan to launch quartz in the domestic market also on our own through various segments including kitchen and bath stores, builders, architects, so we will be doing aggressive marketing campaign and launch the product in Indian market with proper educational campaign to let people know that how different quartz is and how different our quartz is from the other quartz manufacturer.

**Kunal Thanvi** We should expect, is it right to assume five years down the line Indian business will form around 25% of quartz business?

**Gautam Chand Jain** I think that is fair enough, it should be even more than that.

**Kunal Thanvi** Sir, in regard to our arrangement with IKEA, will Pokarna will have its own dedicated stores at the location where IKEA will be present or we will be directly supplying it from our plant to IKEA or we would have some warehouses arrangement, how do you go about it?



**Gautam Chand Jain** It will all be dependent on need based, wherever the demand will go up, we will decide how to service those demands and if we need to service directly, we will do that, if you need to open five more locations to service properly the customer as well as the IKEA, then we will do it like that.

**Kunal Thanvi** There is no plan for going retail stores in the places where IKEA have their stores because if that happens we have our own customer channel and we can service IKEA from our retail source, we do not have any such plan right now?

**Gautam Chand Jain** We have various plans actually because it is too premature to discuss, whenever we do something we will let everybody know about what we plan to do.

**Kunal Thanvi** My next question was regarding, this year we ended our sales with a decline of 5% and the primary reason of the decline was the 20% decline in the granite business, however, the margins for the granite business has improved if I see year-on-year basis and the capital allocation in the granite has been increased more than the quartz business, so is my understanding right that increase in margin is because of the increase in share of the raw granite?

**Gautam Chand Jain** Yes, you are right because we as a business model like to process our own material more in the factory, but also focus more on our own quarrying operations, so the price realization that you see is basically coming from two different segments, one is from the quarries which is main business that we have and also from processing, but processing this year was slow, but it was made up by the quarrying operations.

**Moderator** Thank you. We have the next question from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

**Dheeresh Pathak** I am sorry if you have already answered this question, I was not there for the entire call, I just wanted to know about this project that you are implementing Rs. 325 crore, what would be the project economics, if you can just briefly explain like when will it get commissioned, what will be the revenue, what will the margins?

**Gautam Chand Jain** I have already answered, but since you were not there, I can come back again to you with, our targeted date of coming into production will be the second half of the next financial year of this new project and in the first year of full year of operations, we assume, hopefully, that we should be achieving 60% of the capacity utilization and it should be somewhere in the tune of 100 crore in the first year because we will be trying new products and we do not want to commit bigger numbers in the beginning today because let us see how it goes. It is not a easy thing to produce quartz, it is a very technical product, till we stabilize productivity, quality and everything, it may take some time, so we assume that we should be able to achieve about Rs. 100 crore of turnover in the first year of operation.

**Dheeresh Pathak** At full utilization, what is its revenue potential?

**Gautam Chand Jain** It will be 250 plus.

**Dheeresh Pathak** With about 45-50% margins?

**Gautam Chand Jain** Margin, we really hope which we continue to do the same margins at least.

**Dheeresh Pathak** Is your working capital meaningfully different between the two businesses, granite and quartz?



**Gautam Chand Jain** Yes, quartz realization is little faster, raw material is more predictable. In granite, what happens is raw material predictable is not as like in quartz because it all depends on the quarries that produce the blocks, sometimes the blocks are not good, so there is a delay in procurement, sometimes we need to buy the blocks and keep it for future, so working capital requirement differs definitely from granite to quartz.

**Dheeresh Pathak** Last question is in terms of your own mines that you would have for the two businesses, do you have a number in terms of what is the reserve life of those mines?

**Gautam Chand Jain** In granite as well as any other natural mineral I would say, the assessment of the deposit size and all is never going to be the right way because the deposit may be there, but if the deposit is no use then it is useless, so quality is more important than quantity of deposits, but we also definitely have deposits of quartz which we have not started operating yet, but right now we operate quarrying only in granite segment.

**Dheeresh Pathak** Your entire quartz business is built on third party mines?

**Gautam Chand Jain** Yes.

**Dheeresh Pathak** Can you give a number to like what is the reserve that you have in terms of your own which you have not utilized?

**Gautam Chand Jain** We talk in terms of acres, so we have made applications to government for various quarry deposits but then as I told this is of no use. Talking about area does not make sense because all important is how much deposit is useful deposit in that.

**Dheeresh Pathak** There is no agency or nobody who does an assessment?

**Gautam Chand Jain** There are agencies that do, but we have never experienced the right numbers coming from any agencies, so we do not rely more on agencies.

**Paras Kumar Jain** Unlike coal there is no JORC assessment of resources or reserve.

**Dheeresh Pathak** What I wanted to ask was the access to mines is not an issue and is it a source of competitive advantage and to what extent do you have that advantages, I want to understand that actually

**Gautam Chand Jain** I would always put it like this, any good raw material will be always in short supply. This is going to happen even in quartz in future. Right now, today there is no problem, but for that reason, we have applied and kept the quartz deposits for ourselves so that in case we have some difficulty, we can start operations of our own quarry.

**Moderator** Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing comments. Thank you and over to you, Sir.

**Paras Kumar Jain** Thank you everybody for participating. We look forward to talking to you again.

**Moderator** Thank you very much. Ladies and Gentlemen, on behalf of Pokarna Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

