POKARNA LIMITED
India's No. 1 granite company

Pokarna Limited
Q1 FY23 Earnings Conference Call Transcript
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Moderator Ladies and gentlemen, good day, and welcome to the Pokarna Limited Q1 FY '23 Earnings Conference Call.

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 Thank you. Good day, everyone, and a warm welcome to Pokarna Limited's Q1 FY '23 Earnings Conference Call. We have with us today Mr. Gautam Chand Jain, Chairman and Managing Director; and Mr. Paras Kumar Jain, Chief Executive Officer, Pokarna Engineered Stone Limited.

I trust most of you have gone through the communication and the results mailed to you earlier. In the interest of time, we would like to commence with Q&A immediately.

So, I'd like to hand over to the moderator, Mike, to open the floor for Q&A. Over to you, Mike.

Moderator The first question from the line of Dixit Doshi from Whitestone Financial Advisors.

Dixit Doshi My first question is regarding this recently, U.S. commerce came out with the preliminary duty notification in July. So, if you can elaborate on that. So now we don't have to pay anything. And in that notification, the competitors were levied 166%. So, is it the final, now the competitors are paying this much duties or final outcome will come in November or December?

Paras Jain The Department of Commerce preliminarily announced the antidumping duty for Pokarna to be 0%. And this is subject to the final outcome, which is expected to happen anytime between end of October and December. So, the duties are still not final and subject to the final outcome by the DOC. So currently, our products are subject to 2.67% as the cash deposits in which 0.33% is the antidumping and 2.34% is the countervailing duty.

Dixit Doshi Okay. And what about the competitors? So, from July to, let's say, by the time the final outcome come in December, how the competitors will have to pay?

Paras Jain See basically, the duties are paid by the importer of record. So, it is not necessarily the supplier who pays it. It can also be the buyer who is going to pay it. So, while the preliminary duties have been announced, they have not yet come in force. They will come into force only after the final duties have been announced and implemented.

Dixit Doshi Okay. Now my second question is regarding the demand outlook. So, we had a very good quarter Q1, so how do you see the order booking for next two, three quarters and demand scenario in the U.S?

Paras Jain See, I think with the pandemic-related demand getting relatively behind and with the talks of recession and other challenges coming, so we don't see a bleak quarter, but at the same time, we are very cautious about the future. So, at the moment, we are very cautious as to how the demand will pan out. I think it will take at least a couple of quarters to see how the demand is panning out. It's too early to comment now.

Moderator We have the next question from the line of Sonaal Kohli from Bowhead.

Sonaal Kohli I have two queries, firstly, assuming the antidumping duty goes through for the competitors, what kind of market share gains or strategy gains you could see if any? And secondly, as far as the freight rates are concerned and the resin prices, et cetera, are concerned When would you see the benefit of lower freight prices and raw material prices for you? Third, you may allow, what are the levers available to you to be able to sell whatever production you do over the next one, one and a half years once everything stabilizes even if U.S. demand is a bit weak considering our market share?

Paras Jain Okay. So, coming to your first question as to what will Pokarna benefit from the spillover of demand arising out of the antidumping duties on certain participants out of India. See basically, unless there is a complete clarity on as to how this is going, it's difficult to comment. So, I think we'll be able to talk much about it only once the final duties come through because there are, different price bracket at which the competition operates. And those price bracket may not fully be lucrative to us.

So, we'll have to see how we use that platform to leverage. So, I think probably when we speak, maybe in the third quarter or maybe at the end of the calendar year, we'll have more clarity as to whether the spillover will benefit us or not.

Now coming to the raw material prices, the raw material prices have recently started not all the prices, raw material prices, but more specifically, the resin prices seems to be now tapering down. So, we think that the entire benefit of that would probably come in the third quarter when we see that the price could stabilize. I think we'll have to wait till the third quarter for us to see the benefit of the resin prices getting stabilized.

Moderator We have the next question from the line of V.P. Rajesh from Banyan Capital Advisors.

V.P. Rajesh Okay. If you can just comment on the capacity utilization in the June quarter? And then secondly, what is our debt number at the end of June, how much debt have we paid down?

Paras Jain So capacity utilization in Q1 has been better than the Q4 of last financial year. While the product mix continues to be what it was, but slightly there has been an improvement in the capacity utilization. We believe that as we progress and once we have more clarity on the demand outlook for arising out of the economic indicators or from the DOC, we'll be able to ramp up the capacity. We have a little cushion in the capacity to go up further. That answers your first question typically. Now on the debt side, you're looking at the term loan side or working capital?

V.P. Rajesh Total debt, I think you had indicated last time that you'll pay down Rs.100 crore in this year. So, I was just wondering if that process started in this June quarter.

Gautam Chand Jain So the consolidated debt is Rs.516 crore, which includes Granite and also the Quartz divisions.

Paras Jain Including both the term loan and the working capital.

V.P. Rajesh Okay. And just a quick question on the capacity utilization. Last time, you gave the numbers. So, if you can just share the numbers, if that's possible?

Paras Jain I can only say that capacity utilization has improved than the past. So, I think if you could excuse me on the numbers. Thank you.

Moderator We have the next question from the line of Vikram Sharma from Niveshaay Investment Advisors.

Vikram Sharma So I had a query related to what was the product mix in the current quarter, basic product and premium products? And what is our outlook on generalized EBITDA margin going ahead?

Paras Jain See, basically the product mix in this quarter was relatively better than what we had in the fourth quarter but it is still not at the level where we want it to be. So, it's going to take some time for the product mix to stabilize. And that's again correlated with the demand scenario. So that answers your first question. Coming to the second question on the EBITDA margin. See, basically, our target at the moment is to come to an EBITDA level of 30%. And once we have a little stabilization at the resin cost, we believe that, that number is possible to achieve.

Vikram Sharma And, what is the demand outlook in U.S. market? Is there any challenge in order book?

Paras Jain So I just answered at the beginning of this call that we are closely watching the demand scenario in both kitchen and bath industry in the U.S. with the talk of recessions and that's another economic indicator not being so lucrative for any other business as well. So I think we'll give a better clarity on the demand outlook probably in the third quarter because that will give us a lot more indicators as to how things are panning out, how the inventory position is in the U.S. and how the US Department of Commerce investigation actually spills over some demand.

Moderator We have the next question from the line of Pritesh Chheda from Lucky Investment Managers.

Pritesh Chheda Sir, I missed your comment on when will you start seeing benefit of resin and freight cost prices lower? And what is your debt repayment scheduled for current year and next year?

Paras Jain Okay. So resin prices are cooling down, we think that the benefit will start coming in from the third quarter completely because there are certain contracts, which have extended pricing for the raw material. And the freight cost has come down, but it has still not come down significantly. And so, I think more than the shipping costs, we are more eager to look at the benefits from the resin price stabilization.

Gautam Chand Jain Regarding the debt payments, we have a schedule from the banks and debt will start falling more from next year. But this year, maybe we'll pay about Rs.10 crore to Rs.15 crore what is due to pay during this year, financial year.

Pritesh Chheda Okay. And how much of our material is FOB?

Paras Jain The large component of our business is FOB.

Pritesh Chheda Okay. Large component is FOB. Okay. And have you firmed up on any expansion plan?

Paras Jain As a business, we keep looking at the opportunities as they keep coming. So, while they have not firmed up any business plan for expansion at the moment, but we keep looking at the options. And I think when we believe that it requires a serious consideration, we'll take it for the appropriate approvals internally and then inform the exchanges.

Pritesh Chheda Any movement in Quartz price?

Paras Jain Basically, as the trend with the raw materials has always been at least in the recent past on the higher side. So, there is a little firm up on the pricing because of general increase in the cost of doing business.

Pritesh Chheda Okay. And lastly, you were targeting 100% utilization by year-end? Will you be able to achieve it?

Paras Jain See I don't know if we ever said 100%. We always believe that optimum capacity is about 85%. So, if the demand scenario continues to be positive, I think 85% is achievable.

Pritesh Chheda That's Rs.900 crore to Rs.1,000 crore revenue, right?

Paras Jain I'll let you do that mathematics.

Moderator We have the next question from the line of Rupesh Tatiya from Intelsense Capital.

Rupesh Tatiya Okay. Sir, at the end of Q4, I think our finished goods inventory position was Rs.85 crore, Rs.86 crore. What would that position be by end of Q1?

Paras Jain So there is a little change from Rs. 85 crore, it is about Rs. 81 crore.

Rupesh Tatiya Yes. Is there a one-off in this quarter? I mean that -- is that shipping lines got better and some inventory in the channel got cleared. Is there a one-off in Q1 number?

Gautam Chand Jain Are you talking about the consolidated inventory of Granite and Quartz?

Rupesh Tatiya Yes, yes, sir. That's consolidated levels, yes.

Rupesh Tatiya Okay. So, there is no one-off, right, in the Q1 number that inventory in China got consumed, there is no one-off?

Paras Jain No. See, basically, as per the policies, what we have in place with regard to the inventory valuation, we consistently use those policies. So we have not reported any exceptional item there.

Rupesh Tatiya No, In terms of sales, I was asking, sir.

Rupesh Tatiya Sir, was there inventory in that channel. Generally, let's say, we consume maybe x inventory in channel every quarter? Was it that 10%, 20% of inventory in channel got cleared and got sold to consumer and now it is being shown as revenue? That is the question.

Paras Jain See basically, we don't do that type of accounting. Our accounting is typically when the risks and rewards are transferred. That is predominantly when the goods are delivered at the port. So, we don't account for based on the sales, which our consumers do. So, there's no consignment sales from our side. So, whatever we have recorded is when the risk and reward are transferred when the container is delivered at the port.

Rupesh Tatiya Okay. Okay. And my second question, sir, is it has Hyderabad unit reached the EBITDA margin level of Vizag unit?

Paras Jain Not yet. It will take some time because the product mix has still not reached to the level of Vizag.

Rupesh Tatiya Okay. And what is the contribution of the newer products because there is newer capability?

Paras Jain As we have maintained in the past also that currently, the products with higher capabilities have still not been commercialized in Hyderabad plant because it takes certain time for products to be developed, people to be trained and products to marketed. So, we are still not seeing the products from the investments, which we have made in Unit 2. So, I think another couple of quarters by the time we start developing those products, and of course, we have developed and we have now started marketing it. So, it will take at least a couple of quarters for the products to get acceptance and the manufacturing to start.

Moderator We have the next question from the line of Mr. Sachin Kasera from Svan Investments.

Sachin Kasera Just wanted to get, check, if you can give us some update on how is the domestic business shaping up?

Paras Jain Yes. So domestic business is growing for us. But of course, as a part of our entire portfolio, it is still a very small number. But the year-on-year growth is promising, and we've been able to add about 100-plus dealers across India now. So our product is available for display and consumers can walk in, touch and feel the product and can also order via our dealer channel. So, I think it will take some time to become a sizable component in the business. But I think the demand and the channel development exercise what we are doing here looks very promising to us in the long term.

Sachin Kasera So sir, just a follow-up on this. So one is that, when we can expect some good numbers from this? Secondly, what is the type of feedback you are getting from consumers? And are we also starting to look at the project side of this business?

Paras Jain Yes. So, see basically, for this business to reach a sizable critical mass, I think it should at least take three to five years because we are not doing a B2B type of approach in the local market. It's B2C in India with such a wide depth of the country. It's difficult to reach out to every nook and corner. So today, we are in Dehradun, and we are also available in Kochi. So that shows that we are now looking at going across the platform. But then still, there is a little regional concentration of what we have in our network. So now we are focused on basically "Kona-Kona Quantra" we are looking at. So, once we are able to be there, then the demand cycle typically will become as it is in the retail side in the U.S. business. Now what was your second question, sorry?

Sachin Kasera One was the response and feedback from the customers who have bought it? And secondly, are we looking also at the project side of this.

Paras Jain Yes. So, we've done a project already in Hyderabad with a very large multinational bank out of U.S., and we supplied to their South Asia's technology headquarter. We supplied the product there. And then we are also doing -- there are other headquarters coming up in other parts of our country. Apart from that, we're also doing some other commercial projects also. So, we've got into both the retail side of it and also institutional side of it.

Sachin Kasera And can you comment, I think on the feedback you got from the -- on the retail side from the customers in terms of what is the feedback and what type of views we are getting in? What is the feedback, what we need to make?

Paras Jain Yes. So basically, this is a unique business model. There's no other company in the country today, which gives you a 360 degree of solution where we come for the initial measurement to finally installing the product and doing everything in between. So, this is a very unique experience, which only currently the consumers in U.S. and Europe have it. So, this is a unique business model and consumers are quite happy because they don't have any hassles of actually waiting for people to come, arrive and then do the fabrication on site creating pollution, noise and everything associated with that. So there has been repeat demand.

And the fact that we are getting the references from our dealer channel, that's what is expanding our network. So, when we tie up with a particular kitchen retail chain, they are referring us to the other constituents of their business in the other parts of the country. So that is where the feedback is actually coming. And also, on Google reviews, you can look at it, you'll find hundreds of reviews there from the consumers directly.

Moderator We have the next question from the line of Pratik Singhania from SageOne Investment managers.

Pratik Singhania Sir, my question is with regards to this proposed duty to the competition or the players in India. So, sir, what is this proposal it stays from and they give on the final duty, then what implication do you see on the entire Quartz import from U.S. terms? And how will we benefit out of that? This is question one. And question two is, similar to Indian companies, is there been any proposed duty on any other players in other countries? And is there any player who is using Breton technology? And has this proposed antidumping duty on to them?

Paras Jain Okay. Now coming to your question. See, basically, this duty would become final somewhere between October to December '22. That's been under the statute

DOCs under an obligation to announce the duties. So, it would be possible to comment about the impact on Pokarna because of the duties, I would rather say the positive impact on Pokarna if any arising out of these duties can only be provided once the final duties are out.

And what happens to the rest of the constituents, so see basically, there are about 51 companies who may be impacted because of this. That does not include Pokarna. So, for them, there is a group of company which will be subject to 323%, and then the rest would be subjected to about 161.5%. So, if that becomes the final norm, then the 51 companies typically will get impacted to that extent. So, any product getting out of those companies into the U.S. will be subject to the duty to what I mentioned. And there are companies who are not impacted because of this, and they will continue to be on the previous rate, which is about 3%.

So, while there will be a group which will be getting impacted, and there will be probably a group which may not be as severely as impacted as this group of 51 companies would be. Now coming to your second question has the similar duty has come on any other product, yes. So, Turkey was also part of investigation like we were. And they also have a relatively similar numbers like our initial numbers, not like 161% and 323% numbers.

Pratik Singhania But any player with Breton technology in Turkey would have received like higher...

Paras Jain There is a player in the Turkey, a Breton player who has received a number, but that's not as high as 161% or 323% what you see.

Pratik Singhania How much that would be, sir, approximately?

Paras Jain That would be less than 5%.

Pratik Singhania Okay. And this is just a procedural to become a final duty or there is a possibility of them rolling back these proposed candidates?

Paras Jain Basically, I would be doing a crystal gazing if I say this or that. But what I can tell you is that there is a statute under which the Department of Commerce is expected to evaluate all the submissions. So, the case briefs are due to be filed this week. And then there will be some rebuttals on it, and then there will probably a hearing as well. So, based on the case and the final hearing, which will be conducted. The DOC will decide whether it's going to amend its position or it's going to stay with what position it took in the preliminary.

Moderator We have the next question from the line of Devesh Neodia from Devesh Neodia SNPL.

Devesh Neodia Just wanted to understand, what is, our strategy to scale up the premium Quartz in USA. I mean, the initiatives that you are taking to increase, let's say, if you can just give some data points like number of salespeople you have ramped up the distributor expansion that is going there.

The price differential, which is there in premium Quartz with the players who are selling the premium Quartz. So, if you can just give a perspective because now, we have to actually sell double the volumes to ramp up the new capacity in premium Quartz. So just some perspective you can give on these three, four points. That would be really helpful.

Paras Jain Yes. See basically, the product mix, as we have maintained that the technology requires a lot of training for us to develop a product which we can differentiate in the market and then get a price which we believe is reasonable for the product. And this is fairly a long exercise, and because there are certain cycles within which the product has to be ready and sent to the market so that the overall sales cycle can be accommodated because it's not possible to immediately launch and the product and trade will not be ready to accept it because there are certain months or quarters during which typically the new product launches happen.

So, if we are able to develop a product during that phase, the chances of the product getting properly marketed and the success rate percentages could be relatively higher.

And then we don't actually determine the prices for resale in the U.S. market.

Devesh Neodia Actually, my question for price differential was, let's say, when you're selling to the distributor and then the distributor who sell the product at the retail level. The price for these premium products that we are selling to distributors, it's differential versus the competitors who are selling. I mean, since we are competing with different players. So, we might have some perspective of, let's say, our player in U.S. at what price they are selling for the similar premium product that we are making or let's say, a player from, let's say, Turkey, what price differential we have. So, in that, where do you think in the price band where we stand and our competitor?

Paras Jain See basically, we believe that consumers don't buy a product, they buy typically a brand. So, in the brand, what happens is that there are certain brands who are actually able to sell the same basic product, probably at 100% more than what others would be doing. It can probably sell an expensive product, 200% more than what the others would be selling in. So, the range is very, very wide. And especially since it is a brand-driven proposition, the brand equity associated with the product typically derive those additional percentages of what I spoke about.

Devesh Neodia Okay. Okay. And if you could just elaborate on the kind of scale of premium Quartz in U.S.A. So, we know the Quartz opportunity side will let you only for the premium category of Quartz, what would be the scale, which is there in U.S.?

Paras Jain See this is an exercise which is difficult to predict with some scientific analysis. But I think if you look at the overall portfolio, about 20% is where the premium lies and about 80% is where you have the basic to mid-level products coming in.

Moderator We have the next question from the line of Anant Jain, an Individual Investor.

Anant Jain Have you seen a heightened number of inquiries after these duties have been announced, although they are preliminary, but have you seen many more inquiries after these duties have been announced?

Paras Jain Yes. I think the trade is a little cautious because things are not final. So, I think the level of activity would only arise after some announcement comes between October to December.

Anant Jain My second question is that is the capacity utilization, the current capacity utilization, is that like that not being optimum, is that a function of demand? Or is that a function of some issues that our end in terms of freight or the plant stabilization or these kinds of things?

Paras Jain It is a mix of both, basically.

Anant Jain If you could elaborate a little more on this, like why would you say that it's a mix of both? I mean you see demand also?

Paras Jain See, what happens is that for us to be able to service all the needs of our customers completely at the basic level would be a little challenging because once we add a customer, it's very difficult to phase out them over a period of time or give them the products which we want to substitute for maybe it will replace some five products with of basic ends, with the higher end.

So, to that extent, it is basically our side of it, like we don't want to take the entire portfolio that is available. That is one side of it. And second side of it with this recession and demand tapering things looking down. I think, with the year-end approaching probably the customers are also a little cautious about building up things.

Moderator We have the next question from the line of Dixit Doshi from Whitestone Financial.

Dixit Doshi My first question is regarding what you mentioned that there is a price realization difference of almost 100% to 200% if the consumer has a good perception about the brand. So, what are we doing for creating our brand in the U.S. and any annual budget we have?

Paras Jain See basically, we are currently a B2B organization, but we are also building up B2C organization. And that we started with India per se, currently. So, while we go to the U.S., we typically focus on servicing the big boys of the industry largely. Of course, we do have certain pockets where our distributors operate and sell the product under the brand name Quantra. So, the different ways we approach on the branding side is that one is that we participate in trade shows where we display a product and where we invite all our customers and their customers to come and see our product experience it lives.

And secondly, we also give certain marketing budgets to our Quantra brand partners, which they can utilize in their local markets to market, be it advertising in the local magazines or doing all the other point of sale related marketing activities, which can be done in that particular regional market.

Apart from that, we've started the digital marketing initiatives. You can follow us on Instagram, Facebook, LinkedIn. And you can see that we are regularly active on the platform, promoting the product, the projects we've done and all the exciting news which we have to share with our trade. So digital marketing is one route. The trade and exhibition are one route, then being on the online portals is something which we are doing and then our partners do the regional marketing.

Dixit Doshi Okay. And my second question is regarding the margins. So, you mentioned that the resin prices have started coming down. So, from the peak, how much it has come down? And if we see other than the last two quarters, we used to make 30%, 33% EBIT margin on the segment result. So, can we come back to those margins, let's say, by Q3, Q4?

Paras Jain Basically, margins is again a function of the raw material prices, what we spoke about during this conference call and also the product mix. So, if the raw material side is taken care with the resin prices becoming relatively better than what they were in the past.

And if there is an improvement in the product portfolio, what we are expecting will happen in next couple of quarters then yes, 30% plus can come. Whether it will be 35% or 40%, what we enjoyed at some point of time, I think I can only comment as we go closer to that.

Moderator We have the next question from the line of Abhishek Tandon from Bowhead India.

Abhishek Tandon Sir, considering our market share in the U.S.A., which approximately comes out to be just around 1%. So, considering there is a slowdown in demand to some extent, how much confident are we for utilizing our capacity at optimum level or, let's say, at the level that we are currently utilizing it?

Paras Jain See, as you see the demand scenario, it's not possible to completely predict how the things will pan out. But if the things stand as they are today, then I think the numbers can be range bound. But if there is a little slowdown in the U.S. market to that extent, I think we will also not be insulated is what we believe.

Abhishek Tandon Okay, and one more question. Considering the new plant, we will be making super jumbo slabs. So, would it be safe to presume that when we are utilizing that plant or the margins will be better than the old firm, considering the market for super jumbo is better than the jumbo slabs?

Paras Jain Yes. So basically, it is like all the planets getting configured to give you the positive results. So, it's not just the size of the slab, it is the production capacity optimization or benefit because of the improved technology and the processes which have come in place the raw material and the product mix. If these three are aligned at some point in time, then the benefits of all this together will help in improving the margins.

Moderator We have the next question from the line of V.P. Rajesh from Banyan Capital.

V.P. Rajesh Last time, you had talked about that the growth could be 20% to 30% over fiscal year '22 this year. So, given what you are seeing on the demand side, do you think that particular view has changed in any way?

Paras Jain At the moment, we believe that what we spoke about 20% to 30% growth over the previous year, seems to be achievable unless there is some dramatic change in the U.S. demand outlook.

V.P. Rajesh Okay. And secondly, in terms of realization, how do the domestic realization compared to the realization you get in the U.S. for a similar or same product, let's say?

Paras Jain See basically, in the Indian market, we don't just sell the product, which is typically the case in the U.S. market. We sell the product. And in the U.S. market, majority of the product, what we sell is typically the slab. But in Indian market, we sell the product, which is fabricated. And additionally, we also have an element of installation. So typically, since we are catering to three different segments like material, fabrication and installation, there are three different buckets.

So, if you look at all the buckets together, the realization is better in the Indian market. But then initially because we are also investing a good amount of money in marketing, creating point-of-sale material displays at the dealer's plate. So overall, I think there will be a little incremental margin in the domestic and not exponential difference actually.

Moderator We have the next question from the line of Sachin Kasera from Svan Investments.

Sachin Kasera Sir, just one thing on this capacity utilization. You mentioned that the optimum can be 85%. But if you remember something in the Line 1, we have achieved high utilization. So is it that the configuration of the Line 2 is a little different than Line 1? If you can just comment a bit on that.

Paras Jain See basically, the capacity utilization number, unlike in many other industries here, is again a function of what design you are producing. If it is a basic design, then you typically have a higher square foot produced, versus the design which has got more complication, you have relatively a lower square foot, which is produced.

So, when we say 80%, 85%, we mean that based on the product mix what we have, we think that seems to be a reasonable number to achieve. So, the same thing will translate between both the units, whether it is Unit 1 or Unit 2, if in a particular quarter or a particular month, we have a higher production of basic versus lower production of expensive product.

To that extent, square footage may go up, but the realization may not necessarily match it. And it can be vice-versa also that the square footage can come down, but the realization may go up because we actually produced a high-end design. So, we believe that 80%, 85% in our experience so far seems to be a number to look at.

Sachin Kasera Sir, second question was on the capacity expansion. You mentioned that you keep looking opportunity and you can't comment it right now. But just to get a sense, what is like the cost difference between a brownfield versus the greenfield because my sense is that as and when maybe 12 months or 24 months down the line, whenever we look at expression or it will be more for brownfield. So, if you could just give us a sense, normally for the same plant, if you were to go from greenfield to cost would be Rs.100, what is typically the same plant costing when you go for a brownfield?

Paras Jain See typically, if you look at our infrastructure the way we have designed our Unit 2, we can actually accommodate additional production line in it without having to do expenditure or investment to the scale of greenfield, which we had to set up a plant. So, I think typically, at least 20% to 25% savings may come between a greenfield and a brownfield.

Sachin Kasera And because we don't have to do the infrastructure, we may also save in terms of the overall time to operate?

Paras Jain Yes. But then we actually invested in advance to that extent that you have a drag on your depreciation and the other return.

Sachin Kasera I'm saying, sir, about the time taken to start the plant will also be lower because it's a brownfield versus a greenfield, you say sometimes like three years for greenfield, brownfield be maybe like two years or two and a half years?

Paras Jain Yes. Yes, relatively the time will be lower than the greenfield because, one is that our team is already available, trained on the product. Secondly, a large infrastructure is already in place. And all our adjustments which we wanted to do in the machines are already told to the supplier well in advance. So, all those learning curve-related issues are already taken care in that sense.

Moderator We will take the last question of the day from of Aman Vij from Astute Investment Management.

Aman Vij On the new plant, by Q4, what kind of value addition portion can we get? Is it like 10%, 20% sales will be value addition by Q4 or higher and lower? And also, if you can talk about the same for FY '24 target? Second question is on the utilization part of the new plant. So, every quarter, we are seeing improvement. So, do you think Q2 utilization will be better than Q1 and similarly, every quarter, we'll keep seeing higher utilization of the new plant? These are the two questions.

Paras Jain See, the target, what we have is that at least 20% of our production should be of high-end design. So, whether it will be Q4 or in '24 is something which I think only next couple of quarters can answer that. So, I think if we're able to come to a 10% plus, probably you can start seeing the benefits of it in the numbers. That is on the mix side.

On the capacity side, see, basically, if there is a demand opportunity which we want to tap, we'll definitely go and take it to have some scope on the capacity utilization side. So, it all depends upon the demand and the needs of the market. So, we're just closely watching how this duty scenario and how the U.S. demand scenario will pan out and probably we're able to get a clarity when we talk about Q3.

Moderator I would now like to hand it over back to the management for closing comments.

Paras Jain Thank you, everyone. It was pleasure talking to you all and look forward to catching up again in Q2 results. Thank you.