

February 1, 2023

**BSE Limited**  
P.J. Towers  
Dalal Street  
**Mumbai - 400 001**

**The National Stock Exchange of India Limited**  
Exchange Plaza  
Bandra Kurla Complex  
Bandra (E)  
**Mumbai - 400 051**

Dear Sir,

**Re.: Transcript of Conference Call**

In continuation of our letter dated January 28, 2023, informing about the uploading of the audio recording of the Conference Call held on January 28, 2023, we enclose herewith transcript of the said Conference Call, in compliance of the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

The above said transcript has been uploaded at the Company's website [www.kajariaceramics.com](http://www.kajariaceramics.com)

Kindly take the above on your records.

Thanking you,

For Kajaria Ceramics Limited

R.C. Rawat  
COO (A&T) & Company Secretary

Encl.: As above

**Kajaria Ceramics Limited**

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**“Kajaria Ceramics Limited Q3 FY23 Earnings  
Conference Call”**

**January 28, 2023**



**MANAGEMENT: MR. ASHOK KAJARIA – CHAIRMAN & MD  
MR. CHETAN KAJARIA – JOINT MANAGING DIRECTOR  
MR. RISHI KAJARIA – JOINT MANAGING DIRECTOR  
MR. SANJEEV AGARWAL – CHIEF FINANCIAL OFFICER  
MRS. PALLAVI BHALLA – GM, INVESTOR RELATIONS**

**MODERATOR: MR. ARUN BAID – ICICI SECURITIES LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Kajaria Ceramics Limited Q3 FY23 Earnings Conference Call hosted by ICICI Securities.

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. Should you need assistance during the conference call, please signal an operator by pressing "\*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Arun Baid. Thank you and over to you, sir.

**Arun Baid:** Good afternoon ladies and gentlemen. On behalf of ICICI Securities, I welcome you all to the Q3 FY23 post results con-call of Kajaria Ceramics. From the management side, we have Mr. Ashok Kajaria – CMD, Mr. Chetan Kajaria – JMD, Mr. Rishi Kajaria – JMD, and Mr. Sanjeev Agarwal – CFO.

Now, I hand over the call to Mr. Ashok Kajaria for his opening remarks post which the floor will open for question & answers. Over to you, sir.

**Ashok Kajaria:** Good evening everyone. It gives me a great pleasure to welcome you to the Quarter 3 FY23 and 9 months FY23 Earnings Conference Call of Kajaria Ceramics Limited. Joining me on this conference call are my sons, Chetan and Rishi, our CFO Sanjeev, and Pallavi Bhalla from Investor Relations.

The 3rd quarter of the year presented a unique scenario, as all the major festivals such as Diwali, Durga Puja, and Chatth Puja, all fell in October 2022. The extended holidays during this month had a significant impact on our sales. However, we observe the resurgence in demand during November and December 2022. Recent dealer expansions in untapped markets such as semi-urban areas should also result in better growth in the future. Our margin recovery has been slow. We expect further improvements from quarter 4 onwards. We have started using alternate fuel from December 2022 onwards, which will reach to its maximum capacity by mid-February 2023. This will take total consumption of alternate fuel up to 35%, resulting in good saving in power and fuel cost. We are also doing modernization of our Gailpur plant by replacing two old kilns which were put up 25 years back in 1988 to the new model kilns. This will not only enable to produce bigger sized ceramics tiles, but also result in saving in fuel consumption as the new kilns are more energy efficient.

Overall, the company grew by 12% in volume terms and at 22% in revenue terms during the first 9 months of the year ending December 2022. We are dedicated to our growth strategy which includes expanding market share and increasing in the number of dealers across India, particularly in unrepresented territories. We are confident that our strong foundation and commitment to excellence will continue to drive its success in the upcoming quarters, both in terms of sales and profitability.

Export momentum has improved in Morbi after being impacted for a few months, and we anticipate that export will touch Rs. 15,000 crores to Rs. 16,000 crores in this financial year 2022-23 against last year of Rs. 12,700 crores.

Now, for this quarter's performance of Kajaria; in quarter 3 FY23, consolidated revenue from operations increased by 2% year-to-year to Rs. 1,091 crores from Rs. 1,068 crores in quarter 3 FY22. The dismal increase in revenue is mainly because of discounts offered in response to subdued demand scenario. Revenue from the bath ware segment declined by 3% in quarter 3 FY23 to Rs. 79 crores from Rs. 82 crores in quarter 3 FY22. Revenue from the plywood segment declined in quarter 3 of FY23 to Rs. 19 crores from Rs. 25 crores in quarter 3 FY22. EBITDA margin for this quarter stood at 12.20% as compared to 17.21% in the corresponding quarter of the previous year. Sharp decline in margin was mainly because of disruptions in natural gas supply followed by unprecedented increase in cost of gas. Consolidated PAT in quarter 3 is Rs. 74.32 crores. As on December 31st 2022, our working capital days have also increased by four days to 66 days as compared to 62 days as on 30th of September 2022, mainly because of increase in inventory levels.

With this, I take this opportunity of thanking you for joining us today. Over to you for Q&A, please.

**Moderator:** We will now begin with the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We'll take the first question from the line of Mr. Rahul Agarwal from InCred Capital. Please go ahead, sir.

**Rahul Agarwal:** Sir, three questions. Firstly, on demand. Sir, I need some help to understand this. Obviously, it looks like a tough environment outside. But how is January? What do you expect in the fourth quarter and next year in terms of volume growth? How would you look at the lay of the land right now? That's the first question. Second was on the gas price, if you could help us with the average gas price for third quarter and fourth quarter expectations. Because my sense was it was supposed to be down 10% Q-o-Q in the 3Q to Rs. 56 SCM from Rs. 62. I don't think that happened. If you could just explain to us what is the direction like? And third one, if any update could be provided on the Nepal thing. Because we are expecting that's a largely coal setup and margins would be upwards of 20% at EBITDA level, and that will start somewhere for fiscal 2024-25. These were the three questions, sir.

**Ashok Kajaria:** As far as the volumes are concerned, July, August, September, October were very, very tough. November, December things picked up. January has been, again, very tough, but I hope that February onwards things should be better. And in future, we are looking at about 13% to 15% volume growth for the year 2023-24.

As far as the fuel cost are concerned, quarter 2 of FY23 was Rs. 56 average. Quarter 3 was about Rs. 53. and going forward, quarter 4 should be in the range Rs.47 to Rs. 48. We are using biogas as a fuel. In tile plant, we have two things. One is kiln and one is a spray dryer. Kiln is fired by gas or LPG or propane; spray dryer can be fired either by coal / Bio Gas or any other gas. In

NCR, we cannot use coal. But now the permission has been given to use biofuel. So, we are using biofuel / LPG from the month of December 2022. You will be happy to know when we started in December, it was about 11% to 12%. In January, it went up to about 24%. In February, it should be close to about 30-34%.

As far as the Nepal is concerned, I was there this week on Monday. Nepal, we have yet to kick start the project. As you might be aware, elections were held recently. We are waiting for a final outcome of how the government will function and then we will start everything by sometime around 15th of March.

**Rahul Agarwal:** Nepal plant starts at what time, sir?

**Ashok Kajaria:** Nepal plant, if we start by 15th of March, Nepal plant should be commissioned by March 24th. In all fairness, it should be ready by March 24th.

**Rahul Agarwal:** And the expectation is right that it is coal-fired and EBITDA margin should be upwards of 20% there?

**Ashok Kajaria:** EBITDA margin, I can't say right now, but definitely it will be very positive, and the plant will be coal fired and also we will use biofuel for spray dryer.

**Rahul Agarwal:** And one last clarification. You said 3rd quarter gas price was Rs. 53 or Rs. 56.

**Ashok Kajaria:** In the 3rd quarter, the fuel prices was Rs. 53. For 2nd quarter, it was Rs. 56. And in the 4th quarter, it should be around Rs. 47 to Rs. 48. I am not talking about gas price. I am talking about the fuel price. Now, we talk about the fuel price.

**Moderator:** We'll take the next question from the line of Mr. Achal from JM Financial. Please go ahead, sir.

**Achal Lohade:** Sir, my first question was with respect to the discount. You made a comment that there is increased discount. Would you be able to quantify that? And how do you see the situation now given the fuel cost seeing a decline even for the others, especially Morbi players. So, how do you see the price evolution actually in the coming quarters? Do you see the discounts or price reductions or you think the benefit of the fuel cost can be retained by us?

**Ashok Kajaria:** Normally what happens when the prices of fuel come down or costs come down is you don't reduce the prices. What you do is you basically pass on some discount to the dealers to sell more. And that is what we did in quarter 3, and that is what we, again, will do in quarter 4. Because, with the gas price coming in, two things will happen. We don't talk about raising any prices as you people keep on asking us. The price increase is off limits. And to sell more, because ultimately we have to sell bigger volumes, we offer some discount to the dealers so that they can sell more.

**Achal Lohade:** Would you be able to quantify, sir, what was the extent of discount at an aggregate company level?

**Ashok Kajaria:** Quantifying is very difficult because it depends on product to product depending on what you want to push. Whether ceramic requires a different discounting or pricing, polished vitrified is another, glaze vitrified another. So, quantifying will not be possible. But definitely, as the need be, we will take care of it.

**Achal Lohade:** But is it fair to say that it was evident in the case of GVT or you think it was more of PVT and ceramics?

**Ashok Kajaria:** All the three products. Because ultimately, everything we have to sell. So, everything has to be pushed. Some pricing adjustment has to be there because Morbi prices of gas have also come down, as you are aware. You have to find the right solution to make sure that your volumes come. You have to make sure that you do the right thing so that you can sell more volume. Ultimately, at the end of the day, volumes are important.

**Achal Lohade:** Given the fuel mix what you are saying, what is the cost difference between earlier gas and now what we are looking at in terms of the alternate fuel? You've said a blended price, I know, but just if we were to understand the price difference between the alternate fuel and gas price, how would that be as of now?

**Ashok Kajaria:** Alternate fuel should be priced at Rs.30/SCM and the cost impact should be around Rs. 27 per SCM and gas prices currently are about Rs. 57 to Rs. 58 per SCM.

**Achal Lohade:** Any indication with respect to margins? You have said the fuel cost will have some benefit, but any color in terms of these margins? Would we go back to 15% to 16% or you think it is sometime away?

**Ashok Kajaria:** Fourth quarter, we are looking at a positive margin of 14% plus.

**Achal Lohade:** And how about FY24, 13% to 15% volume growth?

**Ashok Kajaria:** Yes, that's what we are talking about volume growth. Let the margin scenario come after the 4th quarter. Let us first perform in the 4th quarter, then we will talk about the margins for the year ahead.

**Achal Lohade:** Just one more question, sir. If we were to look at 13% to 15% growth on a going-forward basis, the capacity additions will also play out in the same fashion. In that case, what is the CAPEX number one can work with on an annual basis for next 2-3 years?

**Ashok Kajaria:** Next year, I can talk about it. This financial year, the CAPEX should be roughly Rs. 90 crores. It has been less of a CAPEX. Next year, as we are doing many things, the CAPEX should be close to about Rs. 300 crores plus.

**Moderator:** We'll take our next question from the line of Mahek Talati from YellowJersey Investment Advisors. Please go ahead.

**Mahek Talati:** Sir, my question was regarding the demand scenario. You said that the demand was tough in January. From which segments are we expecting good demand in markets of North, South, East, or West from February onwards?

**Rishi Kajaria:** Demand overall is tough. The ground reality is still very tough. But because we got some respite in our costs, we will try to get some more extra market share and we'll try to sell more. But overall, the entire India, the demand situation has not improved a lot. And that is what you will see in all the building material industry overall.

**Mahek Talati:** What is your current capacity utilization?

**Rishi Kajaria:** We're almost at about 90% to 93%.

**Mahek Talati:** Any expected CAPEX for increasing capacity? Because, I see in expansions, we don't have much capacity with regard to the tile. So, any expected capacity expansion in that segment going forward?

**Rishi Kajaria:** Not really. We already have a lot of capacity in hand. I think with this and a little bit of outsourcing, we should be able to meet next year.

**Mahek Talati:** And from FY25 onwards?

**Rishi Kajaria:** Then we'll plan separately. Right now, we're talking till FY24, which we've already planned a CAPEX of about roughly Rs. 300 crores to Rs. 400 crores, which includes your bath ware, Nepal, maintenance, our Sikandrabad modernization, and our Gailpur modernization. That should take care of FY24. And beyond that, we still haven't planned. That we'll plan in the next 3-4 months.

**Mahek Talati:** How is the bath ware segment picking up in terms of demand? Is it the same like tiles or there we are seeing some pickup?

**Rishi Kajaria:** Tiles we are very very strong. We are the #1 brand. Bath ware we are still not there completely. And if the market is tough, the growth is difficult. But we're putting all our best efforts and hopefully, things should get better. Overall in 9 months, we still have grown. This quarter was a little tough.

**Moderator:** We'll take the next question from the line of Mr. Girish Choudhary from Avendus Spark. Please go ahead.

**Girish Choudhary:** Firstly, just a bit more on the alternate fuels. You said that the usage has increased. I just wanted to understand the sustainability of the supplies of the same? And also, is it getting used across all your plants or specific to a few regions?

- Ashok Kajaria:** Alternate fuel came in the picture because in NCR, you cannot use coal, right? In Morbi, they are using partly coal in the spray dryer. The alternate fuel is biomass which has been allowed and being used in NCR plants for spray dryer. Sustainability is not an issue. It is basically mustard husk which is being used, so sustainability is not a problem. And Rajasthan, as you all know, is a big producer of mustard. So, sustainability is not an issue. And the cost has come down and will further come down as we go along.
- Girish Choudhary:** You are using this primarily in your Rajasthan plant. Not yet in....?
- Ashok Kajaria:** In Rajasthan plant, in UP plant also – Sikandrabad and Gailpur.
- Girish Choudhary:** Is there a scope to use the same in your South plants and also maybe the Morbi plant?
- Ashok Kajaria:** South plant is also using a biofuel but a different biofuel. A combination of biofuel, LPG, and combination of coal; it is allowed there.
- Girish Choudhary:** Secondly, on the working capital. We are seeing consistent increase in working capital for the last 2 to 3 quarters. Any reasons? And do you see to reverse again and then go back to the normalized levels of 50-odd days?
- Ashok Kajaria:** It's been tough. First 3 months have been good. Last 6 months have been very tough. But definitely, it will come down by March. That much I can assure you.
- Girish Choudhary:** But what is driving this increase?
- Ashok Kajaria:** Excess stocks. That which you are planning, that is not getting sold because of the market condition. As simple as that, but definitely, by the things looking up, I think by March, it should come down.
- Girish Choudhary:** Lastly, I also see that you have decided to divest the Vennar Ceramic plant. Any reasons for the same? Also, any plans to replace this capacity by adding another greenfield?
- Chetan Kajaria:** We are divesting our stake in Vennar to the existing promoters mainly because of two reasons. First, due to the National Green Tribunal hearing. Vennar comes near the lake Kolleru which is within a 10-kilometer radius, and we cannot do any further expansions in Vennar, which reduces its profitability and the overall costing. Secondly, the price of gas in Morbi has come down substantially. So, it has become cheaper to outsource from Morbi landed versus Vennar. That's why we are divesting our stake in Vennar to our existing promoters who hold 49% stake. Secondly, the gap which we will get by giving Vennar back to the promoters, we will make up by outsourcing from Morbi.
- Moderator:** We'll take the next question from the line of Mr. Praveen Sahay from Prabhudas Lilladher. Please go ahead, sir.



**Praveen Sahay:** The first question is related to volume growth in the subsidiary, which is pretty well as compared to the own manufacturing. So, is it fair to understand that the premium tiles' volume demand was softer compared to economy or ceramic?

**Rishi Kajaria:** You're talking about South Asian Ceramics or tiles on a general level?

**Praveen Sahay:** Overall, in a quarter, subsidiary volumes were pretty well as compared of your own manufacturing volume. So, just trying to understand is it because the own manufacturing largely is PVT and GVT? Is that the softer demand in the premium tiles versus the ceramics....?

**Rishi Kajaria:** All the categories of tiles are growing simultaneously. And the South growth has come because of acquisition of South Asian Ceramics, which we did 2 months ago. That also helped us penetrate deeper in the southern markets.

**Praveen Sahay:** And the second question is related to subsidiaries only that in the last 7 quarters if I look at, the realizations were quite volatile. What is the reason for that?

**Rishi Kajaria:** The subsidiaries' realization, where do you see the volatility?

**Praveen Sahay:** I had calculated on the basis of revenue versus your volume.

**Rishi Kajaria:** Not really. It is all related to demand. There's no....

**Praveen Sahay:** No, not demand. I am saying it's quite volatile. In the last 7 quarters if I look at, the realizations were quite volatile from Rs. 319 in the first quarter of '22 and it went up to Rs. 385 and now coming back to Rs. 316. So, every quarter, it's quite volatile, not consistent, I can say. Is there any particular reason for that?

**Pallavi Bhalla:** No, it's basically a change in the mix between subsidiaries and outsourcing. what's happening is one of the Cosa units we are converting into GVT which we have converted now. So, now under subsidiary portion, we also selling GVT which falls under premium product category. Because of that your realization has moved up in subsidiary category. And as and when the sales from Cosa units will increase, the realization will move up. The volatility in realization of subsidiary was mainly because we changed of shift of South Asian Ceramics, which we acquired two months ago, from outsourcing portion to subsidiary portion. That's why some volatility was there but now it is going to remain sustainable and it will increase gradually as the GVT production will increase in Cosa.

**Praveen Sahay:** Second question is related to Vennar. The total consideration of Rs. 18.25 crores, have you recognized anything?

**Rishi Kajaria:** We invested that money 10 years ago when we bought the 51% stake in Vennar. And we have an agreement with the promoters that we will get the same money back when we divest the stake in the next 1 year back to the promoters.

- Praveen Sahay:** So, it's not yet started divestment or....?
- Rishi Kajaria:** It'll be starting from 1st April 2023 and finished by 31st March 2024.
- Moderator:** We'll take the next question from the line of Mr. Ritesh Shah from Investec. Please go ahead, sir, with your question.
- Ritesh Shah:** Sir, my first question is what will be the optimal mix on fuel? You indicated that we have inched up biofuel to nearly 30% of the overall mix. I just wanted to get a sense if the current pricing remains, what is the threshold which is possible practically on biofuel, LPG, and the other long-term and mid-term contracts that we usually have?
- Ashok Kajaria:** The biofuel and LPG proportion (gas which was 100% at one time – 4-5 months back) will be 35% by end of February.
- Ritesh Shah:** Sir, how much would be LPG? 35% is biofuel. LPG would be how much?
- Ashok Kajaria:** If I take you 4-5 months back, it was 100% gas. We are now comparing gas versus LPG & biofuel. Four months back, it was 100% gas. End of February, it will be 65% gas and 35% will be the combination of LPG & biofuel, out of which, LPG will be 5% and biofuel will be 30%.
- Ritesh Shah:** Sir, how much will be the prevailing LPG prices or biofuel? You indicated, I think, Rs. 30 per SCM. I would presume that is on landed basis. How much would that be?
- Ashok Kajaria:** LPG prices are about Rs. 58, gas prices are also at about Rs. 58 or Rs. 57.5, and biofuel will be Rs. 30.
- Ritesh Shah:** Sir, would it be possible for you to quantify the regional price trends we usually give on gas for North, West, and South for this quarter and the prior quarter, please?
- Ashok Kajaria:** The quarter which just ended, the North prices were Rs. 57, South was Rs. 44, West was Rs. 48, and average was Rs. 53.
- Ritesh Shah:** And sir, for the prior quarter, if it's possible?
- Ashok Kajaria:** Quarter 2, North was Rs. 59, South was Rs. 48, West was Rs. 53. Average was Rs. 56.
- Ritesh Shah:** Sir, last question on Morbi. Can you give a top-down view basically on the number of units which are there right now? What percentage of units are currently operational? And then, say, around a year back, we were hearing a lot of news around several new units which were expected to come in. Has that already come in or it's more of a story, it hasn't actually materialized? That would be very useful.
- Ashok Kajaria:** 1) That, you have to find out. 2) I can tell you what the size of the industry is right now. The size of the industry currently is approx. Rs. 57,000 crores. As per the latest data published by Ceramic

World Review. I'm sorry, Rs. 52,000 crores, ending March 2022, out of which Rs. 39,300 crores is domestic and Rs. 12,700 crores is export. Roughly, as per their information, there are about 600 units which are there in Morbi – tiles units. Because, when the units closed for 1 month, that's when the data they had published and that information came out that it was roughly about 600 units.

**Ritesh Shah:** Just a last follow-up. Sir, a couple of months back, Morbi had taken a shutdown for a month. I think it was from 1st of August to I think 1st of September, something around that.

**Ashok Kajaria:** Absolutely correct.

**Ritesh Shah:** Sir, what we hear something similar is actually possible because the demand conditions are not that great. Is there some merit to it or how one should understand this particular variable?

**Ashok Kajaria:** This is news to us right now. As of now, this is news to us. Demand is tough, as already said by Chetan and Rishi and myself. But this news of Morbi shutting down for 1 month is news to us. GSPC has reduced the gas prices twice. So, the gas prices there are also around Rs. 48 to Rs. 50 depending on whether it's a 1-month contract or 3-month contract, which at one time was close to about Rs. 62. So, they have also reduced the gas prices.

**Ritesh Shah:** Sir, last question, if just squeeze it in. Any expectation or hopes from the budget – GST cuts or gas tax rates?

**Ashok Kajaria:** Budget cannot touch GST, as you are aware. Budget can only give more money in the pockets of the middle class of India, which I think they will, but budget cannot touch GST.

**Moderator:** The next question is from the line of Udit Gajiwala from Yes Securities. Please go ahead, sir.

**Udit Gajiwala:** Sir, just one question on the demand front. Like you said that demand is sluggish, could you highlight is it from the metros or more to do with the tier-2 and tier-3 cities? And where is the respite from Feb that you are expecting from should come?

**Rishi Kajaria:** The demand is overall slow all over India, whether it is tier-1, tier-2, or tier-3 cities. And things going forward, let's see, hopefully, I think the demand and market should improve everywhere. We cannot single out any place that we are looking at better demand. But because of our penetration and because of our South plant, we'll get a little better market share in the South market with our Tirupati and our South Asian plant. Otherwise, the demand scenario is tough all over India.

**Moderator:** We'll take the next question from the line of Mr. Nikhil Agrawal from VT Capital. Please go ahead, sir.

**Nikhil Agrawal:** Sir, I just wanted to understand more about the biofuel that you mentioned. Rs. 53 was the average that you said for Q3, which is a blended average of biofuel and natural gas?

**Ashok Kajaria:** No, Q3, we had no biofuel. Biofuel only started in the month of December. And by the end of February, it will be complete. Whatever we can, we will be in a place to put that by the end of Feb.

**Nikhil Agrawal:** So, the average that you said, Rs. 53 for Q3 and Rs. 56 for Q2 was only the gas cost?

**Ashok Kajaria:** Only gas, yes. For North, it was gas; for South, it was a combination of various things, fuel; and West also, it was a combination of fuel and this thing. But for North, it was only gas.

**Nikhil Agrawal:** As far as I remember, for Q2, the average gas cost previously you had mentioned was Rs. 61 in the previous call.

**Ashok Kajaria:** Yes, but at that time what we mentioned was correct. What you're saying is right. We mentioned Rs. 62 at that time. We did not take the other fuel into account because we were only talking about gas. With biofuel coming in, now we talk about fuel, we don't talk only about gas.

**Nikhil Agrawal:** And sir, why all of a sudden have you started using biofuel? Was there some approval from the government or....?

**Ashok Kajaria:** 1) No, it's approved thing by NGT. Earlier, before March, they had only approved for boilers, and then after that, they approved for all industries because once "A" industry is approved, they have also approved all the industries they can use biofuel. 2) As you are all aware, gas costs went up haywire in July, August, September, October onwards, because of war between Ukraine and Russia. And the gas price which I'm talking about, Rs. 62, Rs. 63, the spot gas at that time had gone up to Rs. 120. And supply was a constraint because still there is a cut by GAIL on the gas, just for your information. Russia is giving you a lot of oil, but when it comes to gas, they still have a problem – GAIL has a problem.

**Nikhil Agrawal:** So, basically, there was no approval from the government. I mean, you could have started using biofuel before as well?

**Ashok Kajaria:** No, the government gave an approval after March 2022. It was there for boilers much much before that.

**Nikhil Agrawal:** Did you incur any major CAPEX to switch to using biofuel or there was nothing major as such?

**Ashok Kajaria:** Yes, it's a small CAPEX to biofuel. I think the total CAPEX for using biofuel for both Sikandrabad and Gailpur should be in the region of about Rs. 7 crores to Rs. 7.5 crores.

**Nikhil Agrawal:** We won't be converting to biofuel in all the other plants because it's a cheap alternative?

**Ashok Kajaria:** No, other plants do not require it. In NCR, in spray dryer, you cannot use coal and that's where biofuel comes in. In Morbi, we are using coal in spray dryer, a combination of coal and some other materials. In South also, we are using a combination of coal and some other material, some

biofuel. And in NCR, you can only use biofuel. You cannot use coal. Sikandrabad and Gailpur are all part of NCR.

**Moderator:** We'll take the next question from the line of Mr. Harsh Pathak from B&K Securities. Please go ahead, sir.

**Harsh Pathak:** I think there has been a slight downward trend in the expectations for the exports, i.e., Rs. 3,000 to Rs. 6,000 crores. So, now are we expecting any supply side pressures in the domestic market due to any potential diversion from Morbi? Are we expecting anything on that front?

**Ashok Kajaria:** We already have said earlier, markets are under a lot of pressure. It's not a question of only downward pressure because of the export market. The demand scenario has been sluggish. Things should gradually improve, because ultimately.... One of the factors for sluggishness, as we all know in the entire building industry, is the increase in interest rates by 2%. Repo rate has increased by 2%. That's one of the reasons why the real estate market is facing this problem. Once things settle down, things will correct.

**Harsh Pathak:** So, there are no supply side pressures that we envisage at this point in time?

**Ashok Kajaria:** You forgot ! Just now, one of your colleagues asked me a question which I didn't have the answer to. Is Morbi going in for another 1-month shutdown? I didn't have the answer. So I said, "Look, I'm not aware." But that scenario, as it is, is tough. Getting in the domestic market and getting out, do you think it is that easy?

**Harsh Pathak:** Just one last question. There is this news that the government is contemplating anti-dumping duty on vinyl tiles from China and Taiwan. Is there a very substantial market for this? And any potential benefits to the ceramic industry as such?

**Ashok Kajaria:** No, I also read this article. They have already taken a decision, the Finance Ministry has to clear it, because probably imports must be coming in the vinyl industry, but it has nothing to do with the ceramics. Ceramics will not get any benefit out of it.

**Moderator:** The next question is from the line of Jignesh Kamani from GMO. Please go ahead.

**Jignesh Kamani:** You mentioned that October month's demand was weak because of the monsoon and multiple festivals. How was the growth in the November and December months combined?

**Ashok Kajaria:** I already said, not because of the monsoon but because of the entire festive season right from Durga Puja to Diwali to Chatth Puja, October was literally a washout. And in November and December, things have been much better.

**Jignesh Kamani:** In November and December, volume growth was in double digits?

**Ashok Kajaria:** It was 10% plus.

- Jignesh Kamani:** And that November-December run rate is continuing right now also, right?
- Ashok Kajaria:** I can only tell you right now, we hope it should continue.
- Moderator:** We'll take the next question from the line of Lavanya from UBS. Please go ahead.
- Lavanya Tottala:** Most of my questions are answered. Just one question. For this biofuel, do we have any long-term acumens, or how are we planning to source this new fuel which we are planning?
- Ashok Kajaria:** Ma'am, supply is not an issue. We, as an industry, started using it only about 2 months back from December. But the boiler industry like textiles, they have boilers, they have been using it for the last 6-7 years. Our friends are also using it. Supply is not an issue at all. And especially in Rajasthan, it's not an issue. We have plenty of mustard husk available.
- Lavanya Tottala:** So, it will be largely spot that you will be taking as per the requirement?
- Ashok Kajaria:** Yes.
- Lavanya Tottala:** And one more question. Did you see any pricing reduction by Morbi players during this demand sluggish environment, like they have increased the prices when they had fuel price increases? Now, their fuel costs are reducing and demand is tough. So, any price cuts from their side?
- Ashok Kajaria:** There are two kinds of working. One is the Morbi working. One is the organized way of working. Morbi, per se, will take some price cut, because the fuel prices have come down. In the organized sector, what people do like Kajaria, Somany, and Johnson; what we do normally. We give more discount to the dealer – we don't anyway have distributors – to sell more, which takes care of that. That's how it works.
- Moderator:** We'll take the next question from the line of Jenish Karia from Antique Stock Broking Limited. Please go ahead with your question.
- Jenish Karia:** Sir, what would be the current debt levels and any specific reason for rise in interest costs during the quarter?
- Rishi Kajaria:** We have negative debt to Rs. 188 crores as of 31st of December.
- Jenish Karia:** Any specific reason for interest costs going up from a run rate of around Rs. 3 crores to Rs. 8 crores?
- Pallavi Bhalla:** We'll check and come back to you.
- Moderator:** We'll take the next question is from the line of Mr. Saurabh Jain from HSBC. Please go ahead, sir.

**Saurabh Jain:** Given that mustard is more a seasonal crop, first thing, is the supply of biofuel assured or consistent throughout the year? And secondly, what is the kind of pricing volatility that could be there in the biofuel element? Is it more stable than the gas cost? Or is it also has quite much of volatility? This is one. And secondly....

**Ashok Kajaria:** Let me answer this first, if you don't mind. First is, supply is assured throughout the year. Right now, what we are paying is the highest because the mustard crop comes only in the month of early March. So, prices will further come down when the crop comes, which is there for almost 4 months, and then they store it and supply you for the rest of the 8 months. So, what we are paying right now is the highest. And supply is not an issue at all for the whole year.

**Saurabh Jain:** So, consistent supplies would be there and pricing would actually be going down from what it is currently?

**Ashok Kajaria:** In March, April, May, and June, the prices will come down.

**Saurabh Jain:** And then may again go up in the coming winter before the crop hits the market?

**Ashok Kajaria:** Then, it will go up at the level which we are paying now.

**Saurabh Jain:** Secondly, your Sikandrabad GVT expansion, has there been a moderation in terms of the CAPEX that we plan to do? I think we were earlier adding 3 MSM. Now, it seems we are adding only 1.8 MSM. Is that correct?

**Rishi Kajaria:** Basically, we are looking for more value-added and bigger tiles. It was actually never 3 million, it was actually about 2 million only. And because of the larger tiles, we have made it 1.8. We plan to make much bigger tiles there, so the square meters will come down. But the value realization will be much better. The margin on these products will be much much better than the regular tiles.

**Saurabh Jain:** I thought the previous quarter, we were targeting 11.4 MSM and now we are targeting about, I think, 10.2.

**Rishi Kajaria:** Correct. Now, we are increasing it by 1.8 million square meters. But as I said, because we are making much bigger tiles, we are talking about a bigger size than even 1,200 x 2,400 which is 1,200 x 2,800 where the realizations are even better. We are going for more value-added and better realization tiles. That's why we reduced the capacity.

**Saurabh Jain:** But it won't impact your assumption of the revenues and actually be more margin accretive?

**Rishi Kajaria:** It will be better.

**Saurabh Jain:** And thirdly, can you talk a little about your Dubai plants? What exactly are you planning from a strategic point of view over the next few years? That will be helpful for us.

- Rishi Kajaria:** We made this joint venture with a local marble partner there, who are big in marble there. And the idea is for the Dubai venture because Dubai is a hub for the entire Gulf and Africa, we are getting a lot of inquiries. A lot of people are coming from everywhere, to see the showroom, to see the tiles. And the idea is to penetrate the export market. Our export is very very less right now. It will always be very less as compared to our domestic, but still if we can increase some numbers, we will do that. And the retail margins in Dubai are very very good. The retail sales of the showroom will take care of the costs. That's the idea. The idea is to increase our exports penetration. And unless we show the tiles there in a proper way, you could not get that thing in the market.
- Saurabh Jain:** You will be having also your sales force employed in the export markets or how is the arrangement going to be?
- Rishi Kajaria:** No, we don't have any sales force employed in export markets. Our only sales force is now just starting in the Dubai market.
- Saurabh Jain:** You're going to ramp up on that front and probably incur some sort of expenses. Can we see an elevated level of expenses?
- Rishi Kajaria:** No, nothing. It's a joint venture. Kajaria RMF is a joint venture which will have its people who will also take care of the retail sales. So, we are not looking at any major expenses in those.
- Saurabh Jain:** Any targets you have in mind from this JV in terms of revenues or volumes?
- Rishi Kajaria:** We do have targets. We are working on it. But yes, definitely from where we used to be nothing in the Gulf market, I am sure there will be a substantial increase after this showroom.
- Saurabh Jain:** But at the company level, your overall export percentage will not change very much. Is that a fair assumption?
- Rishi Kajaria:** Not very much because our domestic is huge. Our exports is anyways very very less.
- Moderator:** We'll take the next question from the line of Mr. Pranav from Equirus Securities. Please go ahead, sir.
- Pranav Mehta:** Sir, I wanted to understand whether the Indian market itself is seeing a very good acceptance of the large-slab tiles and that is the reason why you and your peers are going for a lot of capacity addition in this category of tiles?
- Chetan Kajaria:** Definitely, it's a growing market. That's why we're going ahead for this production of large tile slabs.
- Rishi Kajaria:** And the realizations are much better there.



**Pranav Mehta:** But sir, I think even before the pandemic, this market was not growing that strongly, but have you seen a shift occurring in consumer acceptance of large-slab tiles and is there a possibility that after GVT, this segment is going to see very strong growth coming in over the next 5 to 7 years?

**Rishi Kajaria:** No. Firstly, it is part of GVT. Secondly, it will always be a small percentage of the overall sale. But yes, as a market leader, we have to be there in the market, as a very innovative player. These tiles will definitely give us good margins. The volumes will not be that much, but definitely, the margins will be there. And as we are making more and more showrooms and displaying it, we'll definitely get that impact. People are moving towards big tiles also. The demand is there, but obviously, the overall demand is much less as compared to normal tiles. As a percentage, it will be small, but it will always give you a little better realizations and more margins.

**Pranav Mehta:** Sir, my next question was on the plywood business. You have now moved into plywood and laminates. What is the strategy in this segment? And how do we want to grow, let's say, over the next 3 to 4 years?

**Chetan Kajaria:** In 9 months, we did a 20% growth because the base is small. And we are looking at scaling it up substantially in the next 3 to 4 years and increase the turnover and go ahead from there.

**Pranav Mehta:** So, as of now, we are not looking for adding any other product segments?

**Chetan Kajaria:** We already have plywood and laminates that we are outsourcing from various places in the market and just evolve the strategy as we go along and see how do we want to strategize that.

**Moderator:** We'll take the next question from the line of Aasim Bharde from DAM Capital Advisors. Please go ahead, sir.

**Aasim Bharde:** Just one question on fuel. Can you talk about what are the constraints for your using propane or more LPG in your plants versus natural gas? Is it because all of them have reached pricing parity, so it doesn't make much sense to use it? I understand the biofuel part, but I guess that is more for a North-based issue and is more for spray dryers. Otherwise, as a substitute for natural gas, is propane and LPG not being looked at as an option?

**Ashok Kajaria:** Propane, LPG, and natural gas, they are the 3 products which can be used, right. But natural gas comes from a pipeline; propane and LPG come from bullets. You cannot use propane and LPG beyond a certain quantity. That's number one. And if you recall, the Gailpur plant started in 1998. Until 2010, twelve years, we have worked with propane and the propane prices were almost 30% to 35% more higher than gas because we didn't have a gas pipeline. So, propane and LPG do not replace gas unless the price difference is very high. And in bigger plants, you can't use.

**Aasim Bharde:** Sir, is the pricing difference that would mean that natural gas will always be preferred and the infrastructure part that you just mentioned?

**Ashok Kajaria:** Natural gas is the right fuel for using. Only when the price becomes too much, in smaller plants, you can think of putting up an LPG bullet or propane bullet, which itself takes 6 months to put. It's not that it's just you put it tomorrow.

**Aasim Bharde:** But in the future, theoretically, say for example, if gas prices or maybe even propane and LPG shoot up again, would biofuel be a much more higher proportion that you can use across your plants which is 30-odd percent?

**Ashok Kajaria:** I've already explained. Biofuel can only be used in spray dryer. Kiln has to be run by gas. Gas means natural gas, propane, and LPG. In our case, we are using natural gas.

**Moderator:** The next question is from the line of Mr. Achal from JM Financial. Please go ahead, sir.

**Achal Lohade:** Sorry, if I'm harping on the same thing. Sir, prior to this, we were under the long-term contracts for the North plants. Is there any take- or pay-related penalties as we move more mix towards biofuel? And this 35% is only for the North, or at the company level, you are talking about 35% will be biofuel?

**Ashok Kajaria:** 1) First thing, the contract still is there. There is no take or pay. They themselves have cut gas. It's not that I have asked for lesser requirement, they have cut gas. 2) Since they cut gas sometime in September, we started exploring and then this biofuel thing came in. Otherwise, we had a lot of problem in September and October. When the gas supplies were cut, the spot prices had gone up to Rs. 120. So, please understand that we have passed through very tough times. And biofuel came in later when we got permission to use biofuel because it was not allowed to be used in anything other than the boiler industry or certain specific industries. As far as we are concerned, the combination of all these factors will come in. And when you say about percentage, the total percentage of fuel when we are talking about is for all the plants.

**Achal Lohade:** So, that 30% is for at the company level?

**Ashok Kajaria:** At a company level by end of Feb.

**Achal Lohade:** That means for the North plant, it would be obviously higher.

**Ashok Kajaria:** It will be slightly higher.

**Achal Lohade:** And with respect to the industry, specifically for Morbi, how is the export momentum in the month of January? Do you think January is continuing the momentum or you are sensing any weakness even in the exports market for Morbi?

**Ashok Kajaria:** They are doing a great job. In November and December, they did exports of Rs. 1,500 crores each.

**Achal Lohade:** So, that momentum is sustained?

- Ashok Kajaria:** For January, let the month get completed, but I think January-February-March, the cumulative exports will not be less than Rs. 5,000 crores.
- Achal Lohade:** And just one data point, if you could, sir. What is the cash flow from operations for us in the 9 months FY23 and the CAPEX for 9 months FY23?
- Ashok Kajaria:** CAPEX is about Rs. 90 crores this year. That much I can tell you. And cash flow, Sanjeev will just reply.
- Sanjeev Agarwal:** It is Rs. 106 crores.
- Achal Lohade:** Rs. 106 crores is the cash flow from operations. CAPEX number for full year is Rs. 90 crores, but for 9 months, how much?
- Ashok Kajaria:** For 9 months, it would be slightly less, about Rs. 75 crores; full year, it should be about Rs. 90 crores.
- Sanjeev Agarwal:** Rs. 75 crores to Rs. 80 crores.
- Moderator:** We'll take the next question from the line of Mr. Ritesh Shah from Investec. Please go ahead, sir.
- Ritesh Shah:** Sir, it's just a quick one. Sir, any particular reason why we have not used biofuel for our Gujarat JV?
- Ashok Kajaria:** In Gujarat, there is no such thing as biofuel. They are using coal in the spray dryer. They are allowed.
- Ritesh Shah:** But sir, when we look at the costing, it is Rs. 30 per SCM versus, I think, when we say Rs. 57 to Rs. 58 for LPG.
- Ashok Kajaria:** No, their costing is also around that – Rs. 32 to Rs. 33. Coal has a similar cost. Coal is also Rs. 32-33.
- Moderator:** The next question is from the line of Mr. Sujit Jain from ASK. Please go ahead, sir.
- Sujit Jain:** Sir, you spoke about FY24 volume being 13% to 15%. But given the commentary on rising interest rates and current sluggish real estate, etc., what gives you confidence there? Bath ware and plywood after many years have not seen material increase in size. So, if you can give your strategy there? And finally, you spoke about increasing dealer/distribution number. Where does that number currently stand?
- Ashok Kajaria:** As far as confidence is concerned, we will always have confidence. I always see things positively. Don't worry on that score. As far as the dealers are concerned, we have told you that in the next 3 years, we will add almost 450 to 500 dealers. You will be happy to note that in the

first 9 months, we have added 125 dealers out of which 35 are exclusive Kajaria. As far as faucet and ply are concerned....

**Rishi Kajaria:** And also to add to that, to give you that confidence that whatever happens in the market, Kajaria, as a brand, our numbers will always be better than the industry. If the industry is growing by X, we will be growing better than that.

**Sujit Jain:** And about the Bath ware and plywood?

**Rishi Kajaria:** Bath ware and plywood, again, we are looking at a very aggressive strategy. The volume growth will be much better.

**Sujit Jain:** And the dealer number now stands at 1,825 is it?

**Ashok Kajaria:** 1,825 approximately plus or minus 5.

**Sujit Jain:** And finally, the size of the industry?

**Ashok Kajaria:** Rs. 52,700 crores. Rs. 40,000 crores is domestic, Rs. 12,700 crores is exports.

**Sujit Jain:** FY22?

**Ashok Kajaria:** FY22.

**Moderator:** We'll take the next question from the line of Mr. Nikhil Agrawal from VT Capital. Please go ahead, sir.

**Nikhil Agrawal:** Sir, I just wanted the volume and value mix for ceramics, PVT, and GVT tiles for Q3.

**Ashok Kajaria:** Volume-wise, ceramics 45%, PVT 26%, GVT, 29%. Revenue mix, ceramics 40%, PVT 27%, and GVT 33% approximately.

**Sanjeev Agarwal:** I just wanted to correct one figure I gave you. Rs. 106 crores was the quarter's cash profit. The 9-month cash profit is Rs. 335 crores.

**Moderator:** Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to Mr. Arun Baid for closing comments. Thank you and over to you, sir.

**Arun Baid:** On behalf of ICICI Securities, I would like to thank all for attending this call and also the management for giving us a chance to host this call. Any concluding comments, Ashok-ji?

**Ashok Kajaria:** I thank on behalf of myself, Chetan, Rishi, and my colleagues, Sanjeev and Pallavi. I think it was a good introduction. A lot of good questions have been asked. And any follow-up questions can be addressed to Sanjeev and Pallavi. Many thanks for organizing this.

**Moderator:** On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.