



POKARNA LIMITED
India's No. 1 granite company

Pokarna Limited

Q1 FY25 Earnings Conference Call

August 14, 2024

- Moderator** Ladies and gentlemen, good day and welcome to Pokarna Limited's Q1 FY25 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 FY25 Earnings Conference Call.
- On this call today, we have Mr. Paras Jain - the Chief Executive Officer at Pokarna Engineered Stone and Mr. Viswanatha Reddy - the CFO.
- Before we begin, I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties.
- I now invite Mr. Paras Jain to open proceedings on this call and share Perspectives on Business and Outlook. Over to you, Paras.
- Paras Jain** Thank you, Gavin. Greetings and thank you all for joining us today.
- Greetings, and thank you for joining us today. While you have the financial numbers for the quarter at your disposal, I'd like to share some insights into the quartz surfaces industry to provide context for our financial and operational achievements.
- I'm pleased to report that our strategic focus on enhancing profitability and improving margins is starting to show positive results. Over the past few quarters, we have diligently concentrated on high-value realization products and significantly reduced our reliance on producing low-margin items. This shift in strategy is already yielding notable outcomes in our quartz segment. Our first quarter performance reflects a



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meaningful improvement in margins, demonstrating that our efforts to optimize our product mix are indeed bearing fruit.

Sustaining this momentum is crucial as we navigate through the challenging market conditions in the U.S., which we anticipate will persist for the next few quarters. The current U.S. market environment is marked by rising interest rates, ongoing inflation, and a weak housing market.

In response, we are executing plans to optimize both our revenues and costs. Despite these challenges, we remain focused on developing and delivering innovative, high-value products. We are receiving continued enthusiastic responses for our quartz from customers in Canada, France, Mexico, and Russia.

As part of our ongoing capital expenditures, I am excited to update you on two key technological advancements:

1. Kreos: The Kreos system, developed by Breton, enhances our production capabilities by enabling the creation of ultra-thin slabs, in addition to the unique designs and various thicknesses we currently offer. This advanced mixture extrusion and distribution system is being installed and is on track for commercialization in Q3 FY25. Kreos will not only expand our ability to produce ultra-thin slabs but also complement our existing product lines with innovative designs.
2. Chromia: Chromia, also from Breton, focuses on high-definition digital printing for quartz surfaces. Part of the Chromia machinery has been shipped by Breton and is expected to arrive late this quarter and early next quarter. Once operational, Chromia will enable us to offer precise, high-resolution decoration on slabs with intricate patterns and vibrant colors, further differentiating our product offerings.

Shifting focus to our operational challenges, we are experiencing escalated ocean freight rates on our overseas or imported procurements. Additionally, we are facing delays in the arrival of raw materials, which further impacts our delivery timelines and operational efficiency. While the international shipping situation influences our procurement expenses, our sales are generally protected as they are typically conducted on an FCA/FOB basis. For sales on a CIP basis, we pass the increased freight rates on to our customers. However, we do experience indirect effects on sales due to delays in shipping caused by the current chaotic international shipping environment. We are doing everything in our power to manage this situation effectively and minimize its impact.

We anticipate that pricing pressures will continue in the market, driven by lower demand, constrained consumer spending on large purchases, and a tendency for consumers to trade down. Our commitment remains steadfast in continuing to improve our sales mix through differentiated offerings. We believe this approach will help us mitigate pricing pressures and position us for long-term success.

Turning to our granite business, the environment remains challenging and this is reflected in our results for the quarter. We are taking all necessary steps to cut costs and explore avenues to increase revenue within this division. Given the current business environment, we anticipate that the granite business will continue to face challenges in the foreseeable future, and we are maintaining a cautious outlook.

Thank you for your continued support and interest in our company. We'll now be glad to take your questions.

Moderator Thank you very much, sir. We will now begin with a question-and-answer session. The first question is from the line of Shreyans Jain from Svan Investment Managers.

Shreyans Jain Sir, my first question is, I think previously we are guiding for Q2 FY25 for KREOS to be commercialized. So, I think you mentioned Q3 right now, so why the delay of one quarter? Sir, my second question is, you had mentioned in the previous calls that KREOS and CHROMIA have been done by two players from Korea and Italy. So, I just wanted some sense on the realizations of that product category since these two players have been selling the product in the market, what is the sense on the realization? How different it is from our current product?

Paras Jain See KREOS, we are currently foreseeing that should be close to September and in terms of commercialization, but it could also spill to another one or two weeks, which is probably around 15th of October. So, on the mention, I am saying Q3, but practically we are saying it is going to be September end, but then depending upon, see this is all done by Italians, the time the technicians come and then there are some hot and cold startups, so there could be a spillage of one or two weeks. That is the reason we are giving you the Q3 guidance now instead of Q2. And now coming to your question on CHROMIA, the CHROMIA line till now, to our understanding has not been commercialized yet with anybody. KREOS, yes, has been commercialized by a player in Korea. So, the product what they are offering the company in Korea typically offer the product largely in B2C segment, so the price realization may not necessarily be an indication what the market would be, but definitely we believe that the realization would be slightly higher than the medium range products what we currently offer in the market.

Shreyans Jain Sir, my second question is if you could just give us some sense, I was reading on Breton's website that this CHROMIA technology includes 40% less silica. So, I am just trying to understand when we start manufacturing this product, is my understanding correct that our gross margins should typically be higher because we lower the silica content better for us how should I look at that?

Paras Jain CHROMIA is basically a printing. So, it depends upon what substrate you have for printing. So, it is possible that you produce a low crystalline silica product, and you print on it. So, it is not necessarily that every product would have a low crystalline silica because of CHROMIA. So, CHROMIA is just like a printer, the base which is a page or a slab in this case, will determine whether it will have a low crystalline silica or not.

Shreyans Jain And sir, my second question to this is how has been the newer markets for us, how have been Canada, Mexico, Russia, India and sir some sense on the capacity utilization that we are operating at currently?

Paras Jain Basically, the new market like Canada is progressing definitely well. France is progressing good. Russia, we continue to face shipping challenges while the market is improving for the product there because we have done a good amount of marketing there with our distributor. But the challenging situation is with regard to the shipping today because it is not easy to ship material from India to Russia, it takes a longer time and the vessels are not all the time available, so unless I think the shipping situation improves for shipping the product to Russia, while the product is well accepted, will continue to have a limited demand coming from there. India, we have recruited a sizable team today now and we are focusing on going to the channel in a different business model now. So, it has just started. It is going to take some time. The capacity utilization as you know always I keep that number a little guarded. What I can tell you is that we are very close to the optimum capacity.

Shreyans Jain So, sir, can we expect some CAPEX in FY26? And the last question is what are our debt levels by the end of Q1?

Paras Jain CAPEX currently at the Board level, we do not have any plans considering for the CAPEX, but as a company, we keep always evaluating the different options which we get. So, currently we do not have any active CAPEX beyond KREOS and CHROMIA as submitted. But then we will keep evaluating the options, and as it comes in the future.

Moderator Thank you. We will take the next question from the line of Shikhar Mundra from Vivog Commercial Limited.

Shikhar Mundra Just wanted more flavor on how is India developing as a market for us and what are our plans? And what kind of revenues are we generating from India currently?

Paras Jain For India, for us is definitely a very small market at this time and the steps what we are taking are for the long term. So, we do not see that immediately in a near future, we will have a substantial revenues coming out of India. So, currently our revenues while they are in double digit growth, but we believe that there is a room to improve that. So, I think it is going to take at least a year or two to see that the strategy fructifies.

Shikhar Mundra What kind of debt levels can we expect end of the year?

Viswanatha Reddy As on today, it is Rs. 304 crore and the next 12-month repayment is actually Rs. 50 crore.

Moderator Thank you. The next question is from the line of Naman Parmar from Niveshaay Investment Advisors.

Naman Parmar I just wanted to know what was the volume growth and value growth in the current quarter? And secondly, how much the new geography has been contributed to the overall revenue?

Paras Jain If you look at the sequential quarter, it was double-digit growth, as I said earlier also we do not give any statistical numbers for obvious reasons. But what I can tell you is that on a sequential basis, it was a double-digit growth what we had in sales volume. And the newer geographies are contributing better than the previous quarters, but still the meaningful contribution is not there in that.

Naman Parmar Any specific number can you provide them?

Paras Jain I think we have refrained from providing because we have a lot of our friends from competition on the call, so we actually do not give some numbers because there is a lot of data pilferage which happens. So, I would request if you can leave with whatever I have answered.

Moderator Thank you. The next question is from the line of Sonaal Kohli from Bowhead Investment Advisors.

Sonaal Kohli I have a couple of questions, so please bear with me. Firstly, when you say that you are running at optimal capacity utilization, I just wanted to clarify, in the past we had quarters where we had significantly higher revenues even when we are not using a full capacity. So, when you say that you are running at optimal capacity utilization, this obviously does not take into account any product mix changes or what you can

achieve based on the product mix in terms of capability or are you saying that your peak revenue per quarter will only be Rs. 187 crore?

Paras Jain When we say optimum capacity utilization, we are typically driven more by the product mix here because if you are producing a product which requires three times the time which typically a medium or a lower end product would require. You typically come closer to an optimum capacity utilization. So, while there is some headroom to improve, but in terms of the bottomline is where we think mostly we are positioned, if not on the topline.

Sonaal Kohli Is it possible for you to do a revenue of Rs. 200-Rs. 250 crore based on the product mix ever in the future or based on current capacity, you think that is unlikely to happen? I am not talking about it now, let us take couple of quarters?

Paras Jain Run rate can come closer to 200 plus, but the bottomline in that case would be very similar to what numbers you are seeing, because if you see the bottomline, currently that is historically the highest we have reported while the revenues may not be historical.

Sonaal Kohli And did you have any plant shut down this quarter because of which you lost revenue or shipping delays because of which you lost revenues?

Paras Jain We have not had any plant shutdowns in this quarter because and there is also one more reason why there is little revenue lag would be also because of the shipping situation, there is some revenue portion which we are not able to account for while the material is still at the ICD because we typically basis on the sales we do, we recognize the revenue when they actually arrive at the shipping port. So, if the material is lying in Hyderabad ICD while it is shipped from our factory, we still do not recognize this revenue till it reaches Nhava Sheva. And also, as I mentioned in my opening comments, there has been little delay in shipping out the materials as well because the current shipping environment, there are a lot of blank sailings happening which vessels are limited and the rates also have escalated. So, customers are also sometimes pushing out to see if their next month situation improves. So, there could be a little lag on the revenue side because of that as well.

Sonaal Kohli Sir, two more questions. Firstly, what are your thoughts on the hotel CAPEX, it is overdue for some time, and I assume the pent up demand must have reduced now overseas as well and hotels may be looking for a big overhaul this year or next year, any lead indicators you are seeing or what are your views on this? And secondly, how long would it take you to ramp up your CAPEX considering the line which you had acquired in your new plant worth much more than your needs?

Paras Jain So, the hotel projects are definitely seeing an improvement in demand. So, our inquiry funnel has expanded. So, we believe that there is a lot of traction and heat in the renovation in hotel segments in the US and we are seeing that on the ground as well. So, on the second question, I did not get your question. Was it ramping up the KREOS and CHROMIA or you are talking about expansion and new capacity addition?

Sonaal Kohli Expansion of new capacity as well as since you alluded to the new initiatives you are taking, also on that front, if they were to come on stream, what kind of incremental revenues could you get from those? A very rough estimate would like to know.

Paras Jain If we have to add another line, typically depending upon what the lead time from the supplier of equipment would be. Usually what we have seen that if anything between 15 to 18 months, it takes for the line to commercialize till the time we take a decision and then apart from the ones that comes in, then you have typically a year to stabilize

the operations and get the run rate coming from there. KREOS and CHROMIA are not as complicated as our full plant is. But again, then the product has to be established and marketed also because the products what we are looking to manufacture are not traditional products, especially from KREOS. It is a completely new product in terms of the look and also the feasibility of producing a thin slab, so thin slab market is typically a different market than the traditional 2 cm, 3 cm market. So, typically we believe that KREOS are also to stabilize and give a good amount of revenue would require at least a year to come to align and CHROMIA typically is just an ornamental decoration on top of it, so commercialization of the technology would not take much time. But then deriving the product out of it again, we believe that it will take at least 6 to 12 months for the right products to be set because printing is something which is very new to this industry and doing a right quality of printing in line with the Pokarna standard would require that we invest a good amount of time and resources in developing the right product, so this is our sense at this time. So, in terms of giving you as to how incremental the numbers would be, it is currently little early to give answer to that, but when we come closer and if we have some answer, we will definitely come back and give you.

- Moderator** Thank you. The next question is from the line of Hrishikesh Bhagat from Kotak Mutual Fund.
- Hrishikesh Bhagat** So, the question is, the increase in employee cost, is it the reference to the increased hiring in India, that is how we should look at?
- Paras Jain** So, the increase in employee cost is basically for multiple reasons. One is definitely we are adding more headcount, so that has also contributed to it. And secondly, we have linked certain employees' key managerial personnel with the performance of the company. So, based on the performance we are providing for that in our books.
- Hrishikesh Bhagat** And in PPT, you mentioned that next quarters, you intend to maintain revenue and profitability. So, is it then fair to say that it is potentially Rs. 190-Rs. 200 crore revenue is now where we can be confident that probably retaining this run rate in immediate future, that is how we should look at it and this margin of 34%-35%.
- Paras Jain** So, I think there are two riders to this. One is definitely the shipping situation should also support us because if the way shipping is currently happening, there could be a 10%-15% plus or minus because we are not seeing a larger improvement yet in the shipping side of it. So, while we produce and keep it, we will not be able to move out. So, that may be an impact, which can come on to the numbers. And then, of course, the product mix also in a quarter would be a driving factor. So, whatever visibility we have for a quarter, we largely think that we will be range bound.
- Moderator** Thank you. We will take the next question from the line of Sneha Talreja from Nuvama Institutional Equities.
- Sneha Talreja** Sir, just a bit on these two new technologies you mentioned, and you said that these are mostly, largely at least new technologies from a perspective that nobody as of now is doing it where please find the application which is the target market. Is this the same market US or is it your new geographies that you are now looking at where you will find applications and more importantly any revenue potential that you can guide us with from these new areas given that your current capacity is already running at optimum utilization?
- Paras Jain** So, basically KREOS can do 2 type of things. One is it can extrude the product in a very innovative way which can give a new decoration to the existing product, what we make in 2 cm and 3 cm. Secondly, what it can do is, it can also create an ultra-thin product like a 7mm thin product, which means that a 7mm thin product can be

used for a lot of applications where thinner materials are used, like furniture tops, especially in the markets like Europe, where they are focusing more on sustainability, which means that use less materials, which means that you give them thinner product, but yes, you give them the product which has the right aesthetics and also give you the product which are technically strong enough to take the loads. And again, there is a lot of cladding market and there is a market for like in yorks and in ships where they want thinner materials to be there. So, typically it can be used in the existing application as a countertop with a 2 cm, 3 cm or a lower thickness product. And if you do a special profile like a mitered edge, you can actually even use a thinner profile for the countertop. And then the target market of course would be US and also Europe we believe is going to be an important market for thinner materials. As I just answered to Sonaal before, it is too early for us to give you indication as to what the revenue potential currently, because we have to experiment with lot of product development on this side of it before we come to a clarity as to where and how much incremental we would really get because theoretical number may not necessarily be right in the market conditions today.

- Sneha Talreja** But fair to assume that the asset turns would be higher than the current asset turns and margins would be better given it is more technologically advanced?
- Paras Jain** The asset turns may not necessarily be higher, but probably the bottomline could be relatively higher because here we are not adding any square footage in terms of the production. What we are adding is the decoration capacity, what we are adding is the new line of products. So, I think the focus if you go back to couple of my previous calls, you will see that the focus has been on improving the margin profile than chasing only asset returns. So, that is where this is going towards.
- Moderator** Thank you. The next question is from the line of Ajay Vora from Nuvama Asset Management.
- Ajay Vora** So, this freight issue that we are facing right now, was it also there in Q1 or has it accelerated recently?
- Paras Jain** No, this has been continuing for a while. On the freight side, Ajay, the situation was there in Q1 and is there in Q2 and as the situation continues like this in Q2, I think Q3 would also be largely the same, because with the Chinese New Year coming, there is a lot of shipping, which happens out of China to US for Thanksgiving, this New Year and Christmas. So, usually we see that period of time, there is a heightened activity on the shipping side of it. So, that is our take currently on the shipping.
- Ajay Vora** So, broadly, I am just trying to understand that whatever we have shipped and delivered in Q1 was also with this shipping restriction and suppose if that eases out in couple of quarters maybe not till Q3, but post that the overall delivery and the shipment can see some sort of improvement over the existing numbers?
- Paras Jain** Yes, so again, there are two facts to it. See one, we have to remember that end of the year shipping situations, the deliveries which happen in end of December, customers are not interested in taking the materials coming in after 15th of December, especially in the US. Because you have your Christmas and New Year coming in. So, a lot of staffs are on leave and all. So, usually everything is synchronized in such a way that either they arrive before that day, or they arrive after they come back from the New Year. So, there could be a little lag in Q3 if customers say that if the transit times are increasing because of the current transit times in certain places have almost doubled up. Like today, like I was saying last month, a transit time to Long Beach on one of the shipping lines portal was shown as 132 days, which typically is was supposed to be less than 5 weeks. So, of course, the

situation is improving in some sectors, it is not improving in some sectors. So, it depends upon how this really pans out, and then only we can say that okay, what happened in Q1 is something which can happen also in Q3.

Ajay Vora But how are the distributors handling this situation meaning, are they looking to stop because the goods are coming a little late or because of the end user demand? How are the things between the consumer and the distributors?

Paras Jain It depends upon the product also and it also depends upon the distributor. If the product is at a level, which is lower to medium level, they typically would be interested in pushing out the deliveries, unless they are committed to some programs, because if you are committed to some programs then the program customers expect that you have to deliver the product, whatever is the situation. So, otherwise you end up paying some damages. That is the situation which our customers have. So, they will have to take a call whether those colors are part of any programs where they have committed and how their inventory is currently with them, because every distributor has a strategy as to how much inventory they want to maintain of a particular SKU. So, that is the answer. There is no direct answer to it. It all depends upon how they and definitely the current demand as you see the housing numbers are also not that promising and remodeling is relatively slow as well. Only thing some of the customers are saying is that either the high end homes or some commercial segments where the demand is pending up, so that may also push out certain part of the demand. But if the designs are unique and they are launching the new designs, then they want the designs to be shipped without any hold back, even if the situations are chaotic.

Ajay Vora So, largely what we are saying is that, till the whole freight situation improves, plus minus 10% from year should continue. And then since we are at the optimal product mix right now, once the new technology kicks in, say in 2-3 quarters, then we can see higher realization and basically better margins going forward, right?

Paras Jain Yes. So, basically, unless the freight situation improves, the numbers are range bound of course with the rider, as I said earlier, what the product makes in that quarter is going to be. And once the technologies, CHROMIA and KREOS stabilizes, definitely we are working on a strategy to improve our realization and that should kick in once we are through that.

Ajay Vora And lastly, just now that we are working with this capacity, when do you think that we can announce the future CAPEX?

Paras Jain See, this is something which is difficult to answer because at the management level, we keep exploring a lot of options and opportunities, but nothing at the Board level as of now. And as I said earlier in the call, it takes 15-18 months on time we announced. So, I think as soon as the Board has made a decision, we will definitely make an announcement. At the moment, we do not have anything on the cards.

Moderator Thank you. The next question is from the line of Chirag Shah from White Pine Investment Management.

Chirag Shah Sir, first just a clarification. So, you said that you record revenues when the shipment reaches the end destination port, right? And it is not FOB that is how you record it, correct?

Paras Jain We report the revenue for FOB or FCA or CIP, when the goods are delivered at the Indian ports, so basically, let us look at a situation in our Hyderabad.

Chirag Shah At the Indian port right and not at the destination port?

Paras Jain Not the destination port.

Chirag Shah And sir, my second question is, once the goods reached to the distributors warehouse and till the end customer says generally how much time it takes based on your interaction with distributor, if the goods have reached the distributor's warehouse today, if at 2-3 month period where the sales happened or it could be even longer or it is shorter if you can just throw some light on this?

Paras Jain See, this is a very tricky question and there is not a straight answer to this because there are some materials which are presold so they are just waiting for the materials to arrive, and they sell it off. And there are some materials which typically have a short conversion cycle. They can be sold in one month through three months, but there are certain materials which have a longer conversion cycle so they can take even up to six months plus. So, there is no straight answer to this. It depends upon the distributor. It depends upon the product.

Chirag Shah But sir, based on your experience, if it took on an annual basis, 40%-50% of your revenue would be short cycle based, that would be a right assumption, or it would be a higher number would be a short cycle based?

Paras Jain We actually do not have the ability to give answer with our experience on this. What I can tell you is that typically it takes 3-6 months for a product to converse in a cycle.

Chirag Shah Sir, my second question is, if I look at your quarterly profit or operating profits or PAT, however, you may look at it, we are at the peak of profitability because in the past we have touched these numbers and then cyclical demand issued whatever something comes in and we have not been able to cross it. So, how should one look at the profit? I understand in the revenue front what you highlighted, but how should one we look at EBITDA/profitability, absolute number going up from here on because in the past we have been at around Rs. 65 crore of operating profit and Rs. 40 crore of PBT, but we have not been able to go beyond that?

Paras Jain So, basically, in any business, there are certain limitations. It is very difficult to say that, or it is not right to say also that it is not going to happen, or it is going to happen. So, I think the numbers, as I said at the beginning of my call, some of the numbers are historical. And for EBITDA we have always maintained that we will have a target between 30% and 35% and of course, we always want to cross whatever benchmarks we have put. And there are times when we have crossed 35 also historically if you go look at our numbers years back, then you will see that there was a time when we were very close to 40% EBITDA also. So, having said that can you do it again? Yes, there is a scope that can be done, but again, it comes with specific riders, as you said sometimes something happens other times some other thing happens so then product mix is the factor which derives it and of course the demand has to continue to the level that is today. But then the simple answer is yes, it is possible, but to what extent that is difficult to tell today?

Chirag Shah And sir, one last question if I can squeeze in, your commentary on the macro demand is not that good is the way you understand it. But somehow we are able to deliver strong results. So, what is this one or two factor which is helping you to do this? Is it design and quality sales or it is more about?

Paras Jain If you look at the situation out in the US, definitely the macro situation is not so promising. That has been a situation which neither you can deny, nor I can deny. That is the fact. It is open to everybody. But the fact remains that the differentiation in the product and the type of customer base we have is what is differentiating us and still helping us to navigate these challenges positively because in every adversity there is opportunity, and we are able to use that adversity to our opportunity. And

that is our strategy. So, now see a lot of people can copy our strategy, but it is difficult to execute because if I tell somebody, somebody can pick up my strategy document and try to implement it. But then can they execute it? That is where the differentiation and I think the way as a team we are executing it, that is where we are able to differentiate from other players in the market both internationally and in the domestic market.

Moderator

Thank you. The next question is from the line of Sonaal Kohli from Bowhead India Fund.

Sonaal Kohli

I have couple of questions. Considering your plans to ramp up in other markets such as Russia and other plants, how would you grow considering you do not have capacity, would you consider an acquisition either in India or overseas? I believe a lot of surplus capacities are available, any thoughts on that?

Paras Jain

So, at this moment, we do not have any organic or inorganic plans in our consideration. But yes, depending upon the situation, if we have to look at some option, we will look at it. But currently, we believe that whatever capacity we have, we will be able to service the demand what we are seeing in certain markets and if we see that see there has to be a good medium-term promise which has to come out from the market for us to react and do something. Unless the situation on shipping side improves with Russia, whatever we try to do would definitely not give us or yield any results and now since already we are implementing our CAPEX of KREOS and CHROMIA, our focus is there to make sure that the line commercializes well and as soon as we believe that we are in the right track, probably we will do something, but today it is too early to comment on it.

Sonaal Kohli

Sir, you have mentioned in the previous comment that the time because you are doing higher quality products, the time period to produce has increased significantly, but even in the prior two quarters, we have been doing higher quality products and I also understand based on last few years of your comments that while time increases, but the realization also increase very significantly. In that light, when you say that you are running at your optimal capacity utilization, is it like, being a conservative management, you are just being little till you do not see the result, you are being a little conservative or there is something structurally changed that the realization incrementally, despite the increasing time are not proportionate like they used to be in the past when you used to talk about these in previous years?

Paras Jain

So, there are two parts answer to this Sonaal. One is definitely that when we do a higher realization product, the production capacity comes down and that is the reason while we produce, we have a low topline relatively, we have a better bottomline because the realization goes up. And secondly, if you see there is a comment, also in my opening comment today where I said that there is definitely a pricing pressure in the market which means that we cannot continue to command the product pricing as we want all the time, so we also have to adjust some of our products to the market situations from time to time. So, that also has to be factored when we say that the pricing realization is higher, but then it is subject to a cap that as and when needed in line with the market demand, we keep tapering the prices and again start working on the new strategies as to how do we come back on a better realization than what we had.

Sonaal Kohli

And lastly, sir, any plans to consider JV seriously in India to ramp up in India considering implementation and increasing real estate prices because the opportunity may not last forever and others may grab this opportunity before us, and can I say that the difference between your production revenue this quarter could be around 10%? Is that a fair assessment?

Paras Jain At this time, we do not have any option which is at the Board level for a JV, but I do not know whether I will say yes or no to anything at this time because it is too early to comment on it. But I think if there is an opportunity, definitely Board will explore and give a right direction to that. But I am not saying that we are averse to it or in favor of at this time.

Sonaal Kohli Sir, I was trying to ask you two things, the gap between your production revenues of this quarter, would it be like broadly around 10%? And secondly, if the hotel ramp-up, would your margins and revenues improved because whatever I understand is that hotels are more standardized products in bulk orders, but they are still come on better margins and you have expertise in this as compared to some of your peers?

Paras Jain So, of course, today even our current mix, what you see still we do not have double digit numbers coming from the hotel sales, our cut to size product sales to the US. So, that is still not reached because as I said that there is an increased funnel which is there in terms of inquiry. We are seeing a good amount of conversion happening, but still, it is not there at the double-digit number yet.

Sonaal Kohli But if it is going to happen, what do you benefit?

Paras Jain Yes, definitely. If the cut to size segment improves instead of saying hotel, we should say cut to size because, of course, largely it goes to hotels, but it could have other application as well. So, if cut to size production or sales improves, definitely it helps us to improve margins. There is no doubt about that.

Sonaal Kohli And gap between production and revenue for this quarter, would it be like 5%-10%, would it be more than 10%, what you produce versus what you are able to sell?

Paras Jain Yes, it would be less than 10%, but more than 5%.

Moderator Thank you. We will take the next question, which is the last question from the line of Shreyans Jain from Svan Investment Managers.

Shreyans Jain Sir, my first question is what kind of impact would we have seen due to these freight issues, shipping issues in terms of revenues and also in terms of OPEX?

Paras Jain See, we have a good amount of raw materials and certain consumables coming from Europe and other parts of the world. So, something which was less than \$500, the container has become close to \$5,000 the container. So, that shows you how much impact that would have on whatever we are importing from those parts of the world where the freights are escalated. So, we do not have an absolute number to give you, but it is a good amount of hit at least the way we look at it because those are containers which we buy in bulk from these parts of the world. And in terms of sales, as I said that we have produced the material, we have shipped the material out of the factory. It is lying in the ICD, not yet reached the port. And once it reaches the port, it typically has to be on board and only when it is reaching the port or it is on board, that is when we recognize the revenue. So, if you see there could be definitely more than 5% sale which is not recognized because the material is lying between the port and the factory. And secondly this also effects because the cash conversion cycle for us also takes longer time because depending upon our payment terms, the large portion of our payment is realized when the material is on board. So, there are times when we are sitting on the materials for more than two to three months also, after having invested the working capital in production. And then also that impacts because the customer wants the material, we have produced the material, but the material is not still on the water. So, it also impacts the overall cash conversion cycle for the customer also. So, that means that if he is getting the material delayed, either my product is losing the opportunity or he is losing the opportunity, which means that

next reordering level also gets pushed out, so these are indirect effects of the shipping, which happens.

Shreyans Jain

So, where I am coming from is the last quarter, we did other OPEX of about Rs. 34 crore if I adjust for the Rs. 14 crore of one-off that you had mentioned Rs. 7 crore **advertisement**, Rs. 7 crore of inventory write-off. So, Q-o-Q OPEX is up by 40%. So, I will just have to understand the impact of freight that would have come because that also technically should be a one off, which you are saying Q2-Q3 should normalize, so that is where I am coming from?

Paras Jain

Q2-Q3 it would normalize. I am saying that if it does not normalize in Q2, it will not even normalize in Q3. Because Q1 situation is continuing in Q2 and if it is continuing in Q2 also for the September, then we believe that even Q3, the freight situation will continue to be challenging. That was my mention when I spoke in the previous answer.

Shreyans Jain

And sir, as far as your past conversation, what I understand is the line 1 peak revenues was about Rs. 400 crore and line 2 was supposed to be 1.3x. So, that comes from Rs. 200-Rs. 250 crore per quarter and now I think in the call you mentioned earlier, that Rs. 200 crore is something that you should look at as peak revenues at peak capacity, right? So, where is the gap in my understanding from what I understand was Rs. 250 crore we could have done from the new line?

Paras Jain

Let me correct your understanding. I do not recall saying that line 1 will have Rs. 400 crore revenue ever because that is the number which I do not know if you guys have given that number based on some extrapolation, that is something which is your crystal gazing mathematics, but that is not coming from us. So, we have written a revenue of over Rs.200 crore in the past. So, if you look at this number can become Rs.250 crore, yes it can become Rs.250 crore, but there are several constants which we have to assume, the product mix has to be right. The thickness mix has to be right; the demand conditions have to be right and all that stuff. But then the bottom line will be coming very close to what we currently have will be a question mark. So, as I said at the beginning of my call, the focus now is not on chasing the topline, but chasing the bottomline that it becomes healthier even if the topline is compromised to some extent. So, we can do Rs. 200 crore plus, yes, provide the shipping situation improves and becomes normal, and the demand conditions continue to be normal. But will we be able to get number what we currently report in a significantly way can we improve, we think that that would take a little time because we are working on new products to come in. Once the new products get commercialized, yes, that would be a time where we will get incremental margins and incremental profitability as well.

Shreyans Jain

Sir, my last and final question is India as a market of 5 years, 7 years out, how big do you think can India be for us? Can it be 5%, 10%, 20%? Why I am asking this is when we look at the Indian real estate market, companies are coming up with Rs. 60-Rs. 70 crore houses and projects for one unit. So, I am just trying to understand the opportunities there. So, what is your sense on the opportunity size for us because 25-30 lakhs of quartz in a Rs. 60 crore house, I think we can easily do that kind of a business, so just some sense there on the macro-opportunity for India?

Paras Jain

See, there are two parts to this. One part is definitely India as a market is growing and you have given some statistics. But then the application of the product cannot be as high as a tile or as high as a natural stone, which can be applied at multi locations like floorings to exterior claddings to what. So, product per se have certain limitation in terms of applications. So, largely this product is used for kitchen countertop and certain interior vertical application, so the overall spend what happens on a quartz in the house may not necessarily be Rs. 50 or Rs. 60 lakh which typically can run into crore even for products like marble. But then coming to a

second part of question, yes, we think that once the strategy is in place in a medium term we think that we will be definitely able to have a market share in our total portfolio of 10% coming from India, but then it is going to take some time before that happens.

Moderator

Thank you very much, sir. Ladies and gentlemen, as that was the last question for today, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Paras Jain

Thank you, everyone and I look forward to catching up again in the next quarter. Thank you.