



“Acrysil Limited Q2 & H1 FY2019 Earnings Conference Call

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MANAGEMENT: **MR. CHIRAG PAREKH - CHAIRMAN & MANAGING
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Moderator: Ladies and gentlemen, good day and welcome to the Acrysil Limited Q2 & H1 FY2019 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the Company as on the date of this call. These statements are not the guarantees of future performance and involved risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” followed by “0” on your touchtone phone. Please note that this conference is being recorded. I now like to hand over the conference to Mr. Chirag Parekh, Chairman & Managing Director from Acrysil Limited. Thank you. Over to you Mr. Parekh!

Chirag Parekh: Good afternoon ladies and gentlemen. A very warm welcome to the quarter 2 and H1 FY2019 earnings call of Acrysil Limited. Along with me on this call I have Mr. Anand Sharma, CFO and SGA, our Investor Relation Advisor. The results are uploaded on the stock exchange and company website. I hope everybody had a chance to look at it. Let me give you a brief update on Acrysil Limited so far.

Acrysil Limited is a leader in lifestyle kitchen products. The company has two plants with the combined capacity of 400,000 Quartz kitchen sinks. Schock GmbH was the technical partner who provided the technology for manufacturing Quartz Sinks and continues to be an equity holder in the company. Globally, there are major four players Franke, Blanco, Acrysil and Schock producing quartz sink. Acrysil is the sole manufacturer of quartz sink in India and Asia adhering to global standards of quality, durability and visual appeal.

Brand development has been one of our key focus over years. As on date, we are custodian of brands like Carysil, Tek Carysil and Sternhagen. Over the years, these brands have been able to garner mind space of influencers as well as consumers. With a diverse range of innovative products, we currently have a presence in over more than 43 countries and are committed to spread our footprints across 70 countries. While we continue to grow our exports business, which has witnessed growth of 29% in H1 FY2019 as compared to correspondent H1 FY2018, the domestic business has continued to be an area of focus and we are extremely happy with our performance over the years. Domestic business at one point in time FY2012 was contributing 5% of our total revenue and in H1 FY2019 same has contributed about 34% of our total revenues and has witnessed a growth of 24% in H1 FY2019 as compared to corresponding H1 FY2018.

Domestically, Acrysil sells its kitchen products under the brand name “Carysil”. The company has increased its domestic presence to strengthen its brand Carysil by increasing its dealer network from 400 to 1300 and our distributor network from 30 to 80 in five years that is from FY2013 to FY2018. Company also has 65 galleries and franchise shop in shop. Presently, 90% to 95% of industry makes use of stainless-steel sinks, approximately 5% to 10% makes use of quartz sink, therefore in order to retain and maintain stickiness with this dealers and distributors, the company has started its production of stainless steel sinks and kitchen appliances too. All the kitchen appliances are sold under brand Carysil as well. The company manufactures two kinds of steel sink

- Press Sink and Quadro, which we call designer sink. Sinks which caters to high-end segment who are willing to pay a premium for superior quality, design and finish. Our total capacity to manufacture Quadro stands at 24000 units per annum and demand scenario for the same continues to remain strong. Citing synergies in usage of quartz sink technology, we have entered the bathroom segment and have developed products, which we believe we have set higher benchmark of bathroom design. These products have been catered under the brand Sternhagen which symbolizes the pinnacle of luxury in design and engineering. H1 FY19 ended we clocked a revenue of 2.04 Crores under this. These are early days; however, we are overwhelmed with the response and feedback for the end users. We believe going forward bathroom segment will be one of our major growth pillars.

Continuing on our philosophy of innovation and developing new products using these synergies of technologies, we have started manufacturing 3D composite wall tiles, which makes us first company in Asia and second in the world to do so. We had made a strategic acquisition of Homestyle Products Limited, A kitchen products distribution company with 75% stake in June 2014 for Rs. 26.5 Crores. Currently we hold 98.75% stake in Homestyle Products Limited. The products sold under Homestyle UK Limited are quartz Sinks, Steel Sinks, taps and accessories and other traded products. From the above, Acrysil itself manufactures quartz sinks which it sold via Homestyle Products Limited in UK.

Homestyle products reported GBP 2.5 million revenues H1 FY2019, a growth of 7% as compared to corresponding H1 FY2018. The acquisition of this division has been extremely fruitful and helped us to spread our footprints in the UK market.

To sum up, currently Quartz Sink dominates the revenue contribution with 69%, steel sinks is 16% and the appliances and others are 15% on a consolidated basis. The demand for Quartz sink has been growing exponentially therefore based on the current order booking and future expected orders, we have decided to do a capex of about Rs.10 Crores approx. This capex will increase the Quartz sink manufacturing capacity by approximately 25%.

To conclude, we are steadily moving up the value change, and capturing the brands mind space of the niche consumer segment across the categories. We believe trend such as changing customer lifestyle, increasing consumer awareness, growing world population base, rising women work force, growing income levels, disposable income levels and availability of the number of financing alternatives suggest that the kitchen product market in India is expected to multiply manifold. Now I would like to hand over the line to Mr. Anand Sharma, our CFO to update you on the financial performance of the company.

Anand Sharma:

Thank you. Good afternoon everyone. Let me take you through the financial performance of the company, Q2 FY2019 performance, the consolidated revenue stood at Rs. 63.9 Crores for quarter 2 FY2019 as against Rs. 51.9 Crores in Q2 FY2018. Recording growth of 23.1% as compared to the corresponding quarter, by strong volume growth in both domestic and export markets.

EBITDA of the company in Q2-FY 2019 stood at Rs. 10.7 Crores as against Rs. 7.4 Crores of quarter 2 FY2018, recording growth of 44.8%. Profit after tax and minority interest increased to Rs. 5.7 Crores in quarter 2 FY2019 as against Rs. 4 Crores of Q2 FY2018, recording growth of 41% in Q2 FY2019 as compared to corresponding quarter two FY2018. Half year performance of FY2019, the consolidated revenue stood at Rs. 124.1 Crores in H1 FY2019 as against Rs. 97.9 Crores in H1 FY2018 recording growth of 26.7% YoY. We have achieved EBITDA of Rs. 21 Crores as against Rs. 13.9 Crores, a growth of 50.7%. The EBITDA margin increased to 16.9% from 14.2%. Profit after tax and Minority interest increased to Rs. 10 Crores from Rs. 7.7 Crores recording growth of 29.9% in H1 FY2019. Now we open the call for questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Shriram R from Sundaram Mutual Fund. Please go ahead.

Shriram R: Thank you for the opportunity. Sir first pardon me if I am asking a very basic question. What has been the change that has happened in the last two to three quarters that we are seeing good traction in terms of volume and in terms of value growth exports in domestic front, so that on the strategic part further any strategic planning that has been done and we are focusing on value-added some kind of segment, which is contributing to our growth and what is our capacity utilization for the Quartz sink at the moment?

Chirag Parekh: Thank you for your question. I think we have mentioned in my speech as well as on our last concall that the company has taken various initiatives to scale up business. So our focus like we have said in the last call too, the focus has been on the exports and on the domestic front. We also mentioned that we had some good tie-up with some well-known companies in the exports business. It is also good to see momentum picking up after the implementation of GST, which has little bit slowed down the growth in the last year, which we are all happy to see that it is moving in a positive direction. It is also good to see that the appliances are taking good shape in the Indian market. Specifically on the margin side, we have significantly improved our margins, it is also thanks to the forex rates, which is in a good position right now, as we being almost 70% exporting company. We were also happy to see that the almost 30% to 40% of the increased material cost has been passed on to our customers. The Last question on the capacity utilization side, we are almost running close to 100%. What you saw growth in the last quarter is, emphasis and concentration on improving productivity at our plants, which has resulted to improvement in margins.

Shriram R: Sir, what is the volume growth, 29% you were mentioned in exports and 24% domestic, so what is the volume growth for export and domestic?

Chirag Parekh: Volume growth is 24%.

Shriram R: 24%, overall?

Chirag Parekh: 24% for exports.

- Shriram R:** So Sir, if I could see 24% so generally what is the sensitivity of rupee depreciation for your EBITDA, is there any kind of number that you can give us?
- Anand Sharma:** EBITDA is calculated without considering forex, so the presentation, which is uploaded, the EBITDA of 16.9% is without the other income, without considering the forex gain. So it means if we take that into the account then the EBITDA margins goes beyond 19%.
- Shriram R:** Thank you.
- Moderator:** Thank you. The next question is from the line of Dhruv Bhimrajka from Crescita Investments. Please go ahead.
- Dhruv Bhimrajka:** Good afternoon Sir and congratulations on a good set of numbers. Sir my question is regarding the interest cost, if we see on a half yearly basis, the interest cost is now 4.88 Crores versus 3.31 Crores, so what is the reason for that?
- Anand Sharma:** The major reason is because of the forex loss under borrowing because of pre-shipment finance, which we have taken from the bank, due to depreciation of the currency there is exchange loss. So that has increased the interest cost. That is the major increase.
- Dhruv Bhimrajka:** So going forward we will have a hit, so it is bearing the interest cost or how do you see the rates are stable?
- Anand Sharma:** See on the working capital side, we have to fund the growth with the additional working capital, we have to do the borrowing for working capital and we are also going to have some capex funding through the term loan. Apart from that there is nothing much on the interest side, only the exchange is playing its part, but since we are a export oriented company with more than 70%-75% exports so net there is a gain but as per the accounting standard we have to show the cost of borrowings separately and income separately so that is why because of this grouping you can see the interest cost higher.
- Dhruv Bhimrajka:** Okay. Sir like Mr. Parekh mentioned that we are doing a capex of 10 Crores to increase the Quadro sink manufacturing by 25%, correct?
- Anand Sharma:** Right.
- Dhruv Agarwal:** So the 4-lakh quartz kitchen sinks capacity goes to 5 lakh, is my reading right?
- Anand Sharma:** Yes.
- Dhruv Bhimrajka:** Okay Sir, it goes to 5 lakhs. Okay. That is great. Sir for this quarter, what is the export and domestic sales ratio?
- Anand Sharma:** Export is 70% and 30% domestic.

- Dhruv Bhimrajka:** Okay, and 30% domestic.
- Anand Sharma:** Yes.
- Dhruv Agarwal:** If you could give us a product wise breakup of the sales?
- Anand Sharma:** We have given the product wise breakup, so in this half year, 69% is the Quartz sink, 16% is steel sink and 15% appliances and others.
- Dhruv Bhimrajka:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Mohit Mehra from Dimensional Securities. Please go ahead.
- Mohit Mehra:** Congratulations on a good set of results. I have a couple of questions. You did kind of touch upon it but I just wanted to confirm, crude prices have gone up substantially and your Acrysil resin prices are linked to that, but your gross margins are more or less the same, so why is that?
- Anand Sharma:** What we did is we passed on the increase of the prices to the customer, through the increase in sales price, so impact what was there in quarter four and quarter one, is almost we have passed on, so there is a lag in the passing of this cost, but we have almost covered the price hike of raw material whatever happened in the last two quarters.
- Mohit Mehra:** How much it will increase your prices by?
- Chirag Parekh:** The prices increased between anywhere between 3% and 5% on the Ex-factory shipments.
- Mohit Mehra:** Okay and one more question about Quadro sinks We have been operating at optimum capacity for the last couple of quarters, is there any plan to add capacity for the same?
- Anand Sharma:** We have already in our opening speech, we have given that there is a 25% increase in the capacity. We are adding 1 lakh unit and that capex is already happening, so we expect that quarter four, we were able to add 1 lakh unit.
- Mohit Mehra:** That is for Quartz sink, I was talking about Quadro, the stainless steel?
- Anand Sharma:** Quadro, okay. So Quadro, we have plans to expand and that we will take that action in the third quarter.
- Chirag Parekh:** So the plan is that we have to finished off Quartz sink expansion and looking at what the current movement happening in the Quadro sinks since we are focusing more on a value added product side on the designer sink, it seems the capacity we will have to increase to anywhere between around 50,000 to 60,000 sinks by April 2019.

- Mohit Mehra:** How much capex will this require?
- Chirag Parekh:** I think it should be about a couple of Crores capex, which we need to incur.
- Mohit Mehra:** And one last question, can I just have the sales and EBITDA numbers for both STERNHAGEN and Tekcarysil?
- Anand Sharma:** See that segment wise we able to provide you. You can talk to us individually, we can provide you.
- Mohit Mehra:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Supriya Madye from East India Securities. Please go ahead.
- Supriya Madye:** Congratulation for the good set of numbers. I just wanted the volume, where you said, volumes you are operating at 100%, so what has been the volume, which we had seen for the second quarter for all the three segments, Quartz?
- Chirag Parekh:** for half-year numbers is granite sinks we have achieved 1.75 lacs versus 1.45 lacs last H1. Stainless steel sinks we have done approximately 29,000 versus 27,000, appliances we have done 9500 versus 6700. That is what broadly the numbers are.
- Supriya Madye:** Yes. And you were also talking about the increase in the brand recognition for the bath segment and for that you are planning to expand your sales showrooms, so how is the progress happening on that end?
- Chirag Parekh:** So I think we do recognize the STERNHAGEN bathroom segment, the growth which we should be having is because there are a number of factors there, I think most it is do with the luxury market in India is still picking up, it is not yet out of the GST and other impacts, but we see coming out now. We do also realize that the speed at which we were built ecosystem has taken a little bit longer, we are fixing it right now, we have just hired a new business and a sales head for the STERNHAGEN business. And we are in process of building ecosystem and we expect by quarter four to at least double our dealer expansion network. Second thing, which will help to scale up STERNHAGEN business is that we have launched out 3D wall tiles last month and we got an overwhelming response. So the 3D wall tiles along with the sanitaryware, which has got very large showrooms across India. So we have right now enquires for the putting 3D tiles, we are approximately about 100 showrooms enquiry, which we would like to display. So we will see good growth moving forward in STERNHAGEN business.
- Supriya Madye:** To understand more the correctly does that mean that we will be showcasing these tiles through some other showrooms?

- Chirag Parekh:** We are talking about a shop in shops like we said in our speech, shops in shops, it is the dealer franchisee or shop in a shop. It is not going to be company own showroom but it is going to be our dealer will have a shop in shops.
- Supriya Madye:** Multi brand new tiles.
- Chirag Parekh:** Correct.
- Supriya Madye:** Okay Sir, one more thing like you have this STERNHAGEN showroom, which basically is there in Atria Mall in Mumbai. How has been the response over there and secondly as you say that overall the response for this product is comparatively slow as against the expectation mainly because it is a high premium product, so to cater to the demand, which is there in India, is there a product modification, you will be seeing into and which will be comparatively economical prices that has compared to the plan launch of this bath segment?
- Chirag Parekh:** Any brand which is a relatively new brand in the market it will take some time to build the brand, and it will take time until you display your products in the showrooms. The showrooms need to allow us to give some spaces which takes about a few months or a year to replace the other brands. So I think a new brand takes a little bit of time, but what we are bullish about it, the brand response has been very good about the products, so the sales are consistently growing, some of the sales we could not achieve in the quarter two because we were stocked out of the few items during the quarter two. So, I think that has not allowed us to do some favor in quarter two. I think what is important is that when our strategy was up a top to bottom strategy, so you wanted to create a STERNHAGEN as a luxury brand and now we are launching the project hotel range what we call, a project range, which we are launching now in January 2020. So January 2020, we will have affordable luxury kind of brand in the STERNHAGEN, which will help us to scale up our growth in STERNHAGEN.
- Supriya Madye:** So basically it will be the same strategy what we have the sinks like we will have this Quartz sink and then just to reach to the economical customers so we have this Quadro sink also in our portfolio.
- Chirag Parekh:** Correct. I think the perception of the brand needs to be very good and high, then it just takes some few years for a brand to be recognized as a luxury brand, premium brand and then it will come out with the affordable series. People can relate that okay the STERNHAGEN is costing 50000, one point in time and I am getting it 20000, I should go to STERNHAGEN in my bathroom. So it is like I said it takes sometime. Carysil also had to go through the same thing, but I think we are looking for a great year for the STERNHAGEN next year.
- Supriya Madye:** But like our sinks, steel sink is sold under Carysil brand, I am not understood it wrongly, again there will be a sub-brand for the bath segment like what we have for the sinks like we have a Carysil for the sink segment as against the Acrysil which is there in the global brand?
- Chirag Parekh:** No, the bathroom brand will be STERNHAGEN brand.

- Supriya Madye:** Yes, that is true, but then when we are getting into the economical segment for the bath segment, is there will be a separate brand or it will be taken under the Carysil brand?
- Chirag Parekh:** No, it will be under the STERNHAGEN brand that we are coming over the special project series
- Supriya Madye:** Okay the product for the different categories with the customers?
- Chirag Parekh:** Yes.
- Supriya Madye:** Okay Sir. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Manav Shah from Arjava Partners. Please go ahead.
- Manav Shah:** I just logged on to the call, are you looking to do your expansion network by Q4, is that correct?
- Chirag Parekh:** Yes for the STERNHAGEN.
- Manav Shah:** This is for STERNHAGEN. I just heard on the call that you are trying to double your dealer count, is it for STERNHAGEN or overall for the company?
- Chirag Parekh:** No, only STERNHAGEN.
- Manav Shah:** What is the current count for STERNHAGEN?
- Chirag Parekh:** STERNHAGEN we have about 60-dealer network, which we plan to close to about more than 100 dealer by quarter four.
- Manav Shah:** So Quadro capacity?
- Anand Sharma:** 24000 per annum.
- Chirag Parekh:** Approximately 25000, we plan to expand to 50000 to 60000 by March.
- Manav Shah:** By March 2019?
- Chirag Parekh:** Yes, by March 2019.
- Manav Shah:** March 2019 and you just give a breakup right now of the stainless steel appliances, can you repeat the breakup again?
- Chirag Parekh:** Quantity breakup?
- Manav Shah:** Yes, the quantity breakup.

- Chirag Parekh:** Granite has been 175000, stainless steel approximately 29,000 and appliance approximately 9,500.
- Manav Shah:** Thank you so much. All the best.
- Moderator:** Thank you. The next question is from the line of Harshil Shah from Anvil Wealth Management. Please go ahead.
- Harshil Shah:** Sir can you throw some light on the raw material prices as in impact on margins going forward and also Sir your distribution policy?
- Chirag Parekh:** Can you repeat your question? You are asking the impact of raw material or went up a raw material pricing?
- Harshil Shah:** Going up raw material prices, going ahead like how do you plan to pass it or like will it impact your margins?
- Chirag Parekh:** We already said that we are approximately 30% to 40% of our customer already passed on the increase, so the moving forward, we still would be continuing to pass on this. Acrysil has increased cost to its customers, so if you are asking the margin in the future I think it will slightly improve.
- Harshil Shah:** Definitely it will improve, right Sir. And Sir what about your distribution policy?
- Chirag Parekh:** We expect to improve on margin.
- Harshil Shah:** You expect to improve, okay.
- Chirag Parekh:** Yes.
- Harshil Shah:** Sir how about your distribution policy and dividend distribution policy?
- Chirag Parekh:** Dividend distribution policy, we have right now on the 25% of our net profit.
- Harshil Shah:** Okay and Sir domestic turnover like are we able to satisfy the demand?
- Chirag Parekh:** See we had a domestic growth of 24% in the first half, but there are a lot of excitement and demand in domestic market, so particularly for the Quartz sink, so we are increasing the capacity by 100,000 and that capacity increase should come in quarter four. So we expect to increase our Quartz sink in domestic market further there is a lot of interest in appliances and we are adding new product lines, so we have a lot of new products coming in, so we expect to increase our appliances also. So domestic also very interesting at this moment our both domestic and exports are growing.
- Harshil Shah:** Sure Sir. So are we breaking even in domestic?
- Chirag Parekh:** No, we are in profit in domestic.

- Harshil Shah:** Profit, EBITDA level profit or PBT level profit?
- Anand Sharma:** Both.
- Harshil Shah:** PBT and EBITDA. Sure Sir. Okay Sir and what do you expect our growth in FY2020 like, can what we able to – 25%-30% or more?
- Chirag Parekh:** I think if this trend is now we are growing at more than 20%. So I think it should continue to grow this way.
- Harshil Shah:** Sure Sir and what is the tax rate Sir like our turnover is below 250 Crores?
- Anand Sharma:** Yes, the tax rate – 25%.
- Harshil Shah:** 25%, right Sir.
- Chirag Parekh:** Yes.
- Harshil Shah:** Sure Sir. Thank you Sir. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.
- Ravi Naredi:** This question to Chirag Bhai, congratulations for the nice result. In next six months or 12 months, which sector will outperform, any expansion of margin possible?
- Chirag Parekh:** I think right now we are bullish on how obviously both the domestic and the export sector but it looks export sector more visible on margins side because looking at this depreciation of rupee against all the three major currencies, which is mainly in USD, Euro and GBP. So I think this trend of depreciation of the rupee, I think we expect that it should not mean not for the rupee gets appreciated, but even if it stays at the current level I think we are in a very good position to expand our margin in the coming quarter.
- Ravi Naredi:** Yes. Nice Sir. And Sir kitchen appliances, are we outsourcing or we are manufacturing in-house?
- Chirag Parekh:** I think good news for the company is that we have started manufacturing the chimneys now at our factory, which we would like to have a cutting-edge technology because if the USD continues to be stronger, the more and more imports are going to get costlier and I think Acrysil is very strong in its manufacturing competition of fabrication and forming of steel, so we are using this now to expertise our technology, manufacturing chimneys. Now chimneys are approximately 60 to 70% of our appliances business. I think in a year or two, we should be having a great competitive edge than the competitors in terms of manufacturing, which will now improve the margins of the company too.

- Ravi Naredi:** Okay. Sir if you allow me one more question, our advertisement cost is how much of the turnover and in future, we believe more on non-publicity or you do aggressive advertising?
- Chirag Parekh:** So I think we have reduced the advertising budget to half of last year. I think we are right now below 5%. Looking at what marketing side on the domestic side, we would be very cautious on the advertising spending, you will have to be very smart in spending, you would be probably looking at more spending of the digital side and only on the need based media.
- Ravi Naredi:** Okay. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Karan Patel from Synconics. Please go ahead.
- Karan Patel:** Thank you for the opportunity and many congratulations on exemplary performance in the first half. My first question would be, are there any specific focus points that Acrysil wants to focus on for the next half of the year other than anything that has been mentioned before?
- Chirag Parekh:** We would be focusing on the expansion, getting our capacity expansion would be the key for us right now. Yes, so I think this is a major thrust, I mean we are probably on a good side of the board right now that we do not have to worry about more orders than but right now we need to build more capacities and manufacturing. And second thing is STERNHAGEN we would be able to build the ecosystem by quarter four for next year 2019-2020.
- Karan Patel:** My next question would be, are you looking up any strategic investment or acquisition like Homestyle in the future to expand into more export markets?
- Chirag Parekh:** Yes. Like we have already said that we are keeping our eyes and ears open if some interesting opportunity comes in, we would definitely try to look into it, but as of now – I think we have enough in hand right now.
- Karan Patel:** Okay and my last question would be you mentioned that there was a very huge interest in 3D wall tiles, so how soon we can see that as like I would say good source of revenue generation for you in the future?
- Chirag Parekh:** I think you will be able to see as early as next year only. Sizeable business we are talking about, which would be a sizeable, we will be talking about 15% to 20% of our business revenues, I think it should take about a few years time.
- Karan Patel:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Ashish Kacholia from Lucky Investments. Please go ahead.
- Ashish Kacholia:** Congratulation on a good set of numbers Chirag. Just wanted to just go with the domestic volumes of all our various products? How many we have sold in the domestic market?

- Chirag Parekh:** On the Granite Sinks, we have done approximately 40000 sinks as against 34000 sinks last year. On steel sinks, we have done about 29000 against 26000 last year, appliances we have done about 10000 pieces against 6700 last year.
- Ashish Kacholia:** Appliances you said 10000 versus?
- Chirag Parekh:** 6700.
- Ashish Kacholia:** Appliances is like almost 50% growth?
- Chirag Parekh:** Yes.
- Ashish Kacholia:** So this stainless steel sink is slow growing business in the domestic market?
- Chirag Parekh:** I think the growth will be coming in, because currently there is capacity constraint of the Quadro right now. We have more orders in Quadro sink than in the press sink where we are focusing. Like I said last time we are focusing more on high value added Quadro products. So I think the quarter four expansion of the Quadro takes place, you will be able to see the growth in coming quarters.
- Ashish Kacholia:** What is your grade about the Quadro sinks here?
- Chirag Parekh:** The Quadro sinks as said, that this was a hand fabricated designer looking sinks versus what we conventional those round kind of things.
- Ashish Kacholia:** This will look like the granite type of sinks?
- Chirag Parekh:** Like the granite sinks, so we are probably I think from the sources we are probably the only manufactures of Quadro sinks in India. So we would like to build our edge on this Quadro sinks.
- Ashish Kacholia:** Okay and overall you are confident of sustaining this 20% plus kind of growth rate, second half and next year?
- Chirag Parekh:** Yes.
- Ashish Kacholia:** Great. All the very best.
- Moderator:** Thank you. Next question is from the line of Tanveer Monga from Prufid Investments. Please go ahead.
- Tanveer Monga:** Good afternoon. I have two questions. One is on the demand that you have for these products. How is the split between the primary demand, which is for example real estate developers or new houses, and what would be the replacement demand, if you have a breakup?

- Chirag Parekh:** Current approximately the real estate, we called the project sale is about 20% of our total sales, 80% is accounted for mostly from the dealers, it is renovation how much and new building is very hard because we do not have this economic data available in India. But what we see from the feedback what we get from the market, it should be about 60%-70% new homes and about 30% renovation market.
- Tanveer Monga:** Thanks. One other thing which you were mentioned earlier in the call was that the interest cost has gone up in the last quarter is because the rupee depreciated, but largely gets set off with the forex gain that we have on the product, which was sold overseas, are we having a 100% setoff or are we positive or are we negative on this assuming rupee continues to be at 74-75 range?
- Anand Sharma:** We are positive. If we take the gain and we take the loss on the borrowing, we are positive. This borrowing mostly is because of the pre-shipment finance, which we avail against the export, so on the export side, we gain on exchange and on the borrowing, which we get in dollars there is a loss. So even after setting the loss, there is a positive. So, we are positive by 40% considering the cost. Going forward our strategy, is to now shift our borrowings to INR borrowing, so going forward we will have more rupee terms borrowing pre-shipment on the finance than the dollar. So that will also have a good impact as our cost should go down.
- Tanveer Monga:** Okay. You are saying in rupee term the cost will go down?
- Anand Sharma:** Yes, primarily because of the exchange loss, because the loss will go down. Normally this forex borrowing is cheaper, but if we consider the forex cost, the fluctuation cost, then it becomes more. So we are shifting to the INR borrowing, which should reduce the foreign exchange loss.
- Tanveer Monga:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Mohit Mehra from Dimensional Securities. Please go ahead.
- Mohit Mehra:** What are the new appliances that you are adding?
- Chirag Parekh:** These new appliances are the whole series based on a very advanced technology, more eco-friendly and all and it has esthetically also a new design. So our all the endeavor is to come out with something new than what the market has.
- Mohit Mehra:** Okay. So, it is the same set of appliances that you had earlier, but with improvements?
- Chirag Parekh:** Our improvement plus we are adding more lifestyle appliances with better quality.
- Mohit Mehra:** Earlier you had mentioned that you have started making a chimneys in-house, so is it all made in-house or is it just a couple of models?

- Chirag Parekh:** We are manufacturing only a few models right now, it is more on straight-line chimneys what we call, the T-shaped chimneys. So we would like to build our edge on that only on these straight-line T-shaped chimneys.
- Mohit Mehra:** And one last question, so your other expenses went up substantially, why was that?
- Anand Sharma:** Other expenses are the pro-rata only because other expenses include everything manufacturing expenses, sales expenses, everything. So that is the prorata. If you go by the percentage, it is down if you compare with the last corresponding quarters.
- Mohit Mehra:** Okay because I was curious about the distribution expenses, so have they gone up in relation to the crude price increases or is it our distribution expense of any small percentage of sales?
- Chirag Parekh:** It is about 12%.
- Mohit Mehra:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Nikunj Joshi from Kitara Capital. Please go ahead.
- Nikunj Joshi:** Thank you for taking my questions. I just wanted to understand the capacity expansion for Quartz Sinks, which you are doing is the focus on domestic markets or exports?
- Chirag Parekh:** It is for both, export and domestic.
- Nikunj Joshi:** Okay and any new customer engagements you have done in export markets in the current financial year?
- Chirag Parekh:** Yes. I think we would be adding about 5 to 6 large customers base this year.
- Nikunj Joshi:** So any added so far?
- Chirag Parekh:** We have added about three brands and what I am talking about is large customers and we are excited to do about three or four more by end of the financial year.
- Nikunj Joshi:** Okay and this would be largely in export market?
- Chirag Parekh:** Yes. Largely export.
- Nikunj Joshi:** Another question is that we are adding capacities for Quartz sinks as well as for Quadro, so both together the expense is 10 Crores or for Quadro, there is a separate plant?
- Chirag Parekh:** Quadro will be separate.
- Nikunj Joshi:** So what will be that amount?

Chirag Parekh: I think should be I mean we have not still worked out math, but it will be about couple of Crores.

Nikunj Joshi: Okay and both will be coming by March 2019, right?

Chirag Parekh: Yes.

Nikunj Joshi: Thank you so much.

Moderator: Thank you. The next question is from the line of Dhavan Shah from KR Choksey. Please go ahead.

Dhavan Shah: Congratulation for the great set of numbers. Actually, I joined a little bit late, so can you please explain the lower gross margin the standalone across for this quarter, so is that because of the changes in the product mix or any raw mat increases that have impacted the overall cost margins?

Chirag Parekh: I think as you rightly said there is a little bit change in the product mix and also you have pre Diwali promotion expenses coming in also. I think it is a little bit of spillover here and there.

Dhavan Shah: I am talking about the gross margins so that is only because of the changes in your product mix?

Anand Sharma: Change in product mix mainly.

Dhavan Shah: Yes and accessories bath fitting, accessories have lower margin as compared to the Quartz, right?

Chirag Parekh: On the gross margins, the margins are higher than the Quartz sinks. This is one of the low volumes, which we are seeing right now, but we will see it going up in the future.

Dhavan Shah: That is all from my side. Thank you.

Moderator: Thank you. The next question is a followup question from the line Ashish Kacholia from Lucky Investments. Please go ahead.

Ashish Kacholia: Chirag, this 175000 granite sinks that you mentioned was for one quarter?

Chirag Parekh: That was for first half of the year.

Ashish Kacholia: For the first half of the year?

Chirag Parekh: Yes.

Ashish Kacholia: So currently our annual capacities about 350000, is it?

Chirag Parekh: We are doing total for capacity is 400000 sinks.

Ashish Kacholia: And on this base we are looking to increase it by 100000 sinks?

- Chirag Parekh:** So 400000 will go up by 100000, to 500000 sinks.
- Ashish Kacholia:** Okay and what is your current capacity of stainless steel sinks total?
- Anand Sharma:** So total capacity is 75,000 plus 25000, will be added by Q4.
- Ashish Kacholia:** Right and you are hoping to fill this additional capacity in FY2020 itself?
- Chirag Parekh:** Yes. Q4, yes.
- Ashish Kacholia:** By Q4 next year you should be able to fill the capacity?
- Chirag Parekh:** Yes.
- Ashish Kacholia:** Okay. All right and any pricing pressure on the granite sink in the export market?
- Chirag Parekh:** Yes. I mean that is there, but I think because we have come out with new value added models, so I think we have kind of less pressure, rupee has depreciated against dollar, so we do not have any contract, which is fixed rate contract, which is good for us right now. So, I think we do not – at this point in time have any price pressures.
- Ashish Kacholia:** Right. Thank you.
- Moderator:** Thank you. The next question is from the line of Raj Gandhi as an Individual Investor. Please go ahead.
- Raj Gandhi:** My question is so far the company has been doing very well in the sinks market, going forward basis, and to so many new products and also focus and emphasize on kitchens, bathroom segment, etc., how well do you think that the company is equipped to handle the growth both from a management perspective and from capital perspective, because we have seen several other players to take an example HSIL, which is not exactly comparable, but the building material major and the moment has started diversifying into too many products, there has been a margin issue, there has been growth issue or focus issue, so how do you think the changes the transition going to be more of sinks into focus on to similar other segment and you need capital to be funding this sort of things going forward?
- Chirag Parekh:** First of all I cannot comment upon HSIL and to be honest do not even know what are the results or what they have done, but from our side what we have seen is the exports and the domestic we were in the market in the last 30 years now and I think we have built up a fantastic ecosystem around it to develop both the domestic and export sales side. We have full infrastructure in place. We have business heads for each category, region wise heads we have, so nothing that which is not allowing us to focus on that. The export and the domestic business is right now driving this to Quartz sink as the largest driver.

- Raj Gandhi:** I agree and the reason to also ask this question because both the segments are extremely competitive, that is only players which are already existing in the market, and now we are trying to build that up, that is the background of asking this actually?
- Chirag Parekh:** I do not know like in my speech, I said the only four Quartz sink players in the world, we are one of them which has a technology for a shop so to a large extent, then we do not have see much competition around the product line what we have. I think as far as that we are in a good spot. Our exports are to more than 45 countries around the world, yes, we have crossed 1000 dealers across pan India. So we are actually well placed at this point in time. Anything, new which we have come up such as appliances, is that we saw a synergy of our brands, kitchen brand and our distribution and network, so we are just capitalizing on our distribution network what we have. As far as the bathroom is concerned, the kitchen and bath if you see across that trend going on in the world is who are into kitchen, going to bath, who are going to kitchen like Solar, large multinational multibillion dollar companies, we all want to be in the kitchen and the bath space. The reason is that there is a network what we have even in India, the network we have of the kitchen sink distribution 90% of the kitchen distributors are bathroom dealers. So there is a big synergy in it. So I think it is probably the fastest most and economical way to scale up your growth.
- Raj Gandhi:** Understood and from a capital perspective, you are seeing that there is fund growth in the medium term next two to three years. Just from a capex would be completed debt funded right now and Sir there was a fundraising a few months back, but would there be anything more coming up or you think the company is well capital given the internal accruals should be sufficient to fund this growth into a newer segment?
- Chirag Parekh:** I think looking at what was the company earnings the company would be quite self sufficient to fund this future expansion.
- Raj Gandhi:** Thank you so much. All the best.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Chirag Parekh for closing comments. Thank you and over to you Sir!
- Chirag Parekh:** Thank you. We are happy with our performance for H1 FY2019 led by greater emphasis of the team towards enhancing operational efficiencies. We are encouraged by the improving macroeconomic factor and believe the momentum in the sector would continue. We are focused towards creating value for all stakeholders. We are very much thankful to all our investors and participants for joining on this concall. Thank you very much. Good evening.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Acrysil Limited, we conclude this conference. Thank you all for joining us. You may now disconnect your lines.