



“Acrysil Limited Q4 & FY2020 Earnings Conference Call”

June 15, 2020



MANAGEMENT:

**MR. CHIRAG PAREKH - CHAIRMAN & MANAGING
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ACRYLIL LIMITED**



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Moderator:

Ladies and gentlemen, good day and welcome to the Acrysil Limited Q4 & FY2020 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Parekh, Chairman and Managing Director from Acrysil Limited. Thank you and over to you Sir!

Chirag Parekh:

Thank you. Good afternoon everyone, a very warm welcome to the Q4 & FY2020 earnings call of Acrysil Limited. Along with me on this call I have Mr. Anand Sharma, CFO and SGA, our Investor Relations Advisor. I hope that all of you and your loved ones are safe. These are extraordinary and unprecedented times where the most important thing is to ensure that we are safe and so is our family.

Coming to the company’s performance, the results and investor presentation are uploaded on the stock exchange and on the company website. I hope everybody has had a chance to look at it. The Board of Directors of the company has recommended a dividend of Rs.1.2/- 60% per equity share of face value of Rs.2/- each for the financial year ending March 31, 2020 subject to the approval of shareholders. Recently we have incorporated our wholly owned subsidiary **Acrysil USA INC** on April 30, 2020. We are expanding our presence in USA through the subsidiary to penetrate deeper into the markets by building a network across America. The company would be dealing in kitchen products, bath products and tiles. We have also appointed a sale representative Kenya Brapham for the US market. He would be looking after existing customers and develop new customers for larger market penetration, in America which is approximately 30% of our global market share. Also name of our UK based wholly owned subsidiary Homestyle Products Limited has been changed to **Acrysil Products Limited** to integrate with the company name.

Company reported good performance for FY2019-2020, registered a topline growth of 10% approximately despite a challenging economy. Company reported highest ever profit before tax of Rs.23 Crores for the financial year 2019-2020. The growth is driven by contributions from all products under the basket in our core product Quartz Sink. Export revenue grew by 14.5% for FY2020. Domestic revenue remains more or less stable with a marginal dip of 1.5%. The domestic economy witnessed slowdown in the entire financial year, which was further impacted due to COVID-19 in the last quarter FY2020; however, we expect demand improve when the situation normalizes. Demand of our product in export market are adequate and encouraging. During the year we introduced new products, took new initiatives to further strengthened Carysil and Sternhagen brands. So this COVID-19 pandemic outbreak, which has hit almost all the



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countries and industries across the world has resulted in disruptions in terms of labour issues, concerns on health, safety, management on the shop floor and also supply chain disruption etc. The world will have to adjust with a new normal of working and so do we. During these challenging and unprecedented times decisive measures have been implemented by the company to protect the health and safety of all our stakeholders including employees, their families, suppliers. The company is following all the guidelines issued by the local regulatory authority for compliance with norms for the factories.

In the presentation, we have shared some pictures, video clips on company's preparedness on the manufacturing plant for smooth function. Just to give you quick update on the business operations in the COVID-19 period. Our plant was shut from March 24, 2020 to April 13, 2020. From April 14, 2020, we partially started manufacturing operations to meet export order backlogs. Currently we are operating in three shifts with capacity utilization of approximately 80%. We are taking all the necessary and preventive measures like social distancing, temperature testing, providing masks, and sanitization facility to all workers, etc. Due to lockdown many workers have migrated and many companies are facing this labour challenge, but fortunately most of our labourers are from local villages so we are not facing any labour supply issues.

Coming to the industry, industry is facing unprecedented time to adjust its operations and functioning to the new normal. Social distancing, employee safety has taken precedence over productivity and work efficiency. Customers are more focused on health and safety and postponing the discretionary purchases. However, since we are in home improvement category not expected to be much affected by this change in consumer behavior as most of the people in current pandemic situation staying at home and hence home improvement will precede over other purchases.

Coming to demand, we have sufficient export order book to scale up capacity utilization and with the normalization of domestic market in the coming quarters, we expect to return a growth trajectory. We are maintaining sufficient stock of raw materials and other input materials to meet production requirements. We have not observed any major supply chain issues during these challenging times except some small hiccups. We believe that company has enough resources and liquidity to scale up operations and service all debts as and when due. So just to conclude, the Company is focusing on sustained business growth and manage the capital with prudence that current volatility calls for. We are taking all the necessary measures in order to keep our business running without interruption while still protecting the health and safety of all our stakeholders. We as a company have contributed Rs. 20 lakhs towards PM Care Fund for fight against COVID-19. This is a small gesture to all the COVID warriors out there and fighting the situation to protect us. Now I would like to hand over the line to Mr. Anand Sharma, CFO of the company to update you on financial performance of the company.



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Anand Sharma:

Thank you Sir. Good afternoon everyone. Let me take you through the financial performance of the company. Q4 FY2020 performance, the consolidated revenue stood at Rs.64 Crores for Q4 FY2020 as against Rs.65 Crores in Q4 FY2019, minor dip was on the back of COVID-19 pandemic, which impacted the domestic revenue in the month of March 2020. EBITDA of the company stood at Rs.9.6 Crores in Q4 FY2020 as against Rs.9.1 Crores of Q4 FY2019 recording a growth of 6%. EBITDA margin grew by 110 bps. Margin for the quarter stood at 15% as against 13.9% in Q4 FY2019. Profit after tax stood at Rs.4.5 Crores in Q4 FY2020 as against Rs.4.2 Crores of Q4 FY2019, Cash profit after tax for Q4 FY2020 stood at Rs.8 Crores as against Rs.6.5 Crores of Q4 FY2019, a growth of 23%.

Now FY2020 performance, the consolidated revenue stood at Rs.276 Crores for FY2020 as against Rs.252 Crores in FY2019 recording a growth of 9.8% year-on-year. We have achieved EBITDA of Rs.46.4 Crores for FY2020 as against Rs.40.4 Crores for FY2019, a growth of 15%. The EBITDA margin increased to 16.8% from 16.1% an improvement of 70 bps. Profit after tax and minority interest for FY2020 stood at Rs.22.1 Crores as against Rs.17.2 Crores for FY2019 recording a growth of 28%. Cash Profit after tax stood at Rs.34 Crores as against Rs.25.9 Crores recording a growth of 31%. Our net debt to equity stands at 0.58 times, our return on capital employed stood at 16.2% as of March 31, 2020. Our return on equity stands at 13.8% as of March 31, 2020. Now we will open the call for questions.

Moderator:

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Ashish Kacholia from Lucky Investments. Please go ahead.

Ashish Kacholia:

My questions is basically if you can talk a little bit about your strategy in each of your major markets and what kind of growth we are looking for in each of our major markets?

Chirag Parekh:

As we have seen that India would probably take some more time for coming out of the pandemic. Our company's strategy is to focus more on export market. In the export market I think one indication already done that US market is going to be one of our major focus and then it is going to be UK and EU. US is where we have set up an office there and we have set up a sales rep so that we want to penetrate that market better. We are already into a process of instances of good deals in the US market. Second, we feel that the UK and Europe will be coming out of the pandemic very soon. France and UK have already opened, Germany is quite strong and these already see a good flow of orders, so the company plans to focus on the US and for the UK and the EU markets at least in the next coming quarters.

Ashish Kacholia:

What were the sales in each of these markets and what is the kind of growth that you are looking for if you can give any indication on that?

Chirag Parekh:

US is 30% of our market, UK is 20%, Europe is 30%. It is very hard to say that what growth could be achieved, however company taking all the efforts and initiatives to try to have a good



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growth in each of these countries and as far as the strategy is concerned we see an opportunity right now for India, so I think it is a good time for Acrysil to create some opportunities and I think there is a potential for the company to show some good growth even with the pandemic going on at this point.

Ashish Kacholia: Right all the very best.

Moderator: Thank you. The next question is from the line of Dixit Doshi from White Stone Financial Advisors. Please go ahead.

Dixit Doshi: Can you just mention how much was the contribution from GROHE this year and how do you see it going forward?

Chirag Parekh: As far as GROHE is concerned the good thing is that GROHE has surpassed the first year expectation of the company. GROHE is already launched in more than 25 countries with our products and as soon as the GROHE is about to take off even further the pandemic came into picture. But we do feel that GROHE is going to play important part of the company not for the last year or this year, but also for the coming years.

Dixit Doshi: Okay. Thank you Sir.

Moderator: Thank you. The next question is from the line of Viraj Mehta from Equirus PMS. Please go ahead

Viraj Mehta: My questions have been answered. Thank you.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Can you tell what is the turnover of Quartz and net profit from Quartz?

Anand Sharma: We do not give segment wise profitability, but we can give you the turnover of the Quartz, which is Rs.180 Crores.

Ravi Naredi: I am a shareholder of this company since last many years and reading about the brands, but want to understand that these brands are not able to grow, so can you throw light on the long-term plan of our company, for the next five years?

Chirag Parekh: I think our vision is very clear for India, Carysil to be one of the most home dominant brands that is why we have one in all categories comprising of sinks and built-in appliances so that it is one stop solution. Unfortunately last year our sales had been stagnant in India, but we see very good market both for the granite sinks and for the built-in appliances segment, which is a new segment



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for us to follow in the future. The company will be focusing on to build the brand and to build distribution channels across India. Our plan in the next three years is that we want to expand our reach across India. On the export side, we are already exporting to more than 50 countries around the world and we plan to cross about 75 to 80 countries in the next five years. Our focus in the next five years will be on the emerging market not necessarily economies where we see the market for our products. Our prime focus for the next five years would be for the US, UK and European market. Our strategy is to boost sales in the global market by tie up with large retail stores across the world to ramp up our growth.

Ravi Naredi: Thank you.

Moderator: Thank you. The next question is from the line of Poonam Sanghavi from Progressive Shares. Please go ahead.

Poonam Sanghavi: Pardon me if I am repetitive actually because of the call drop in between. Basically what I have understood from one of the initial questions is the 75% of the revenue that is coming from the Quartz Sink and you are of a view that you have got enough of export orders in hand. With this capability and sufficient stocking that you have indicated, but giving it a little longer view do you think that 15% Y-o-Y growth that you have clocked for FY2020 looks doable going forward as well that? Secondly, the other smaller component, which is your domestic part, which obviously has been hit by the pandemic, which has indicated 15% drop that you have seen in the numbers for Q4 FY20, over there how do you see the movement going forward. I am talking from a layman's perspective do you think people are going to let any and everyone come into their house and get the kind of mending or the kind of changes that are needed in this chaotic environment?

Chirag Parekh: I will just answer your first question. I think the export growth for the current year is possible as we are focusing and as we have tied up with some large retailers across the world. Few of them we have already tied up with in the last year, and few of them are already in the process to be tied up. One thing that has changed in the sales dynamics was we observed that almost 40% of our distributors sales in Europe and US is converted into online sales. We observe that whatever orders we are seeing is actual orders customer ordering and it is not for anybody trying to stock, We have definitely seen and we have stated in our statement of the home improvement sector in America especially the Europe numbers will come, but approximately 7% to 8% of the growth in home improvement stores have shown in America and expecting the same for Europe so we call it as V-curve or bounce back so we think the bounce back in US and Europe will come and hence we see an opportunity for the company. We stand a chance and can post a growth in export too because of our good prices and quality and our aggressive marketing efforts. Obviously at the same time we do not know what is going to happen as if a second wave is going to come what is going to happen, but we just keep our fingers crossed and just try to focus on these efforts right now. Number two in India I think the dip in Q4 FY20 was already due to the market sentiments.



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I think that is why we have a dip when people are getting more cautious and I think it is not only in our company I think it is from across all the categories inside the country. The Company perceives that kitchen sink is a product, which a person cannot do without it, chimney is a product a person cannot do without it, and it a product sitting at home where most of the entertaining and most of the time he is going to spend at home. There is a survey done in the Western side that people are going to spend their money inside homes because they want to spend more time at home and it could be appliances to electronic gadgets. So that is why we feel that phenomena which is happening outside India this should happen in India too. We have already seen some good orders from India, the markets in South are opening up, people have started buying products for home especially kitchen sinks because that is where the hygiene is required where you cook all the food and wash all the food. With all this pandemic and sentiments of hygiene going on kitchen sink is the first thing you would like to change. Chimney is something you like to put it in your kitchen and keep your air clean inside it. I think the western culture should ideally come in India but the only problem we are seeing in India is whether a second lockdown may come or not as the cases are on a rise., We do not know that whether the markets will be closed again so I think that is the only grey area whether the markets would be opened on.

Poonam Sanghavi: Okay fair enough. I would just have one question from the financial for Q4 that is if the other income which is actually if you see taken the calculation if I am just trying to get that other income out I am going to be reporting a drop of about 32% so can I get a clarity on what exactly is this other income component because it seems to be a little repetitive as of December 2019 quarter as well and now seen in March 2020 as well. If I can just get a little bit of clarity on that?

Anand Sharma: Other income is exchange gain what we got. Because of the accounting standard we have to show the exchange gain in other income, but it is not actually other income it is part of sales.

Poonam Sanghavi: Thank you so much.

Moderator: Thank you. The next question is from the line of Parimal Mithani from Credential Investments. Please go ahead.

Parimal Mithani: I have two questions. I would like to know how have your receivables been since the lockdown from your global supplier to the global clients of yours? Second thing what is the net debt from the company's balance sheet?

Chirag Parekh: We do not have any problems with respect to receivables from our global customer side. We have all the receivables intact and so we do not have to worry about it.

Parimal Mithani: What is the net debt from the company balance sheet Sir?



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- Anand Sharma:** Net debt is Rs.86 Crores.
- Parimal Mithani:** Okay Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Riddhima Chandak from Roha Asset Managers. Please go ahead.
- Riddhima Chandak:** Sir my question is regarding the branded and non-branded sales. Could you tell me that out of the total portfolio how much is branded and non-branded?
- Chirag Parekh:** In India it is completely 100% branded, for the export sales about 80% is non-branded and 20% is branded.
- Riddhima Chandak:** How has been the raw material pricing in the past three months and what would it be going forward?
- Chirag Parekh:** We have two major raw materials, which is Quartz and Acrylics. So Quartz has been stable as we do not see rise or any inflation in the prices neither we do see decrease. But on the MMA side and acrylics side the prices have dropped approximately by 10% to 15%, due to lower market demand which is half the actual demand and which should probably help the company's profitability in the coming quarters.
- Riddhima Chandak:** Okay so does that means margin will marginally increase in the coming quarters?
- Chirag Parekh:** So I would say on the gross margins side there would be some improvement.
- Riddhima Chandak:** In the domestic market how much our products are going to their renovation side and how much is in the new premium projects that is directed to the dealers overall in the domestic market?
- Chirag Parekh:** There is unfortunately no market data, but whatever the information we have is that in India approximately 60% to 70% goes for new homes and about 30% goes for renovation. Now we see this change could move to 50 or even 60:40 ratio with this pandemic. As people are going to do more renovation than buying new homes so this can change like in the global market will be 80% renovation versus 20% in new homes, this phenomena could change in India.
- Riddhima Chandak:** 20% from new home trend and 80% is from renovation side?
- Chirag Parekh:** Yes that is for the exports market because people do renovation. India has obviously new homes and buildings, projects and all going on however, the real estate market we all know is in a bad shape, people would like to conserve cash at this time, so they will not buy home, but try to renovate their existing homes that is why I see that changing now to 50:50 or 60:40.



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- Riddhima Chandak:** Okay Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Divesh Mehta. Please go ahead.
- Divesh Mehta:** Actually I am tracking this company for the last six to seven years now and I have seen that this company has always done a steady capex in terms of capacity since last six years so our capacity was at around 2,50,000, 2,75,000 and we reach to at around 5 lakh units, so I am saying in terms of Quartz, so I just wanted to understand one thing that going forward since we are looking for a medium term target of around Rs.300 Crores in topline, Rs.500 Crores in the long-term so how do we see a roadmap for the sales, so are we looking for any appreciation in the global market like what we did with Sternhagen since we have Rs.20 Crores cash in our books or do we have any roadmap by increasing the capacity next three years again?
- Chirag Parekh:** While the company is quite interested in focusing on the export markets, but at the same time company is quite watchful about the situation and how it is going to turn out with the pandemic in India and abroad. So I think at this moment of time we would like to keep our eyes and ears open and try to see what opportunities do we have without any major risks inside the company. The reserves what we have are there and I think this is going to increase by end of this financial year too. Like I said that we are seeing opportunities in the export market as well as the company will continue to focus and try to maximize the market share at the same time by being active in this pandemic and I am sure there could be many opportunities for us. Any opportunities on acquiring business could possibly be post pandemic so we are very watchful and keeping eyes and ears open and will see what opportunities come in and if we feel that it is aligning with our thought process and our growth strategy we would probably have a look at it.
- Divesh Mehta:** But Sir with the existing plant capacity what we have at Bhavnagar, do we have any space to increase the capacity for more than 5 lakh units over there?
- Chirag Parekh:** So we have a good land bank in hand. We have enough land to increase capacity by another 2,00,000 sinks. So we even have land bank, resources and capital to scale up capacity growth to 7,00,000 sinks.
- Divesh Mehta:** Okay that is it from my side. Thank you.
- Moderator:** Thank you. We will move on to the next question that is from the line of Rajat Chandak from ICICI Prudential AMC. Please go ahead.
- Rajat Chandak:** Sir I wanted to understand what kind of capex we are looking at this year and next year? Since last one and two to three years it has constantly been from Rs.18 Crores to Rs.20 Crores in that range kind of capex, so any guidance from the capex front?



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- Chirag Parekh:** Like I said we have been watchful of things, but if things go as planned we will be doing about Rs.10 Crores capex for the current year and for the next year we will see by end of this calendar year how the situation turns out to be. I think we would be able to make a call by end of calendar year for the next year.
- Rajat Chandak:** So you are saying that capex this year would half from Rs.19-odd Crores to Rs.10 odd Crores?
- Chirag Parekh:** It should be approximately Rs.10 Crores.
- Rajat Chandak:** Sir that in terms of free cash generation, I was just seeing our cash flow for this year, we have generated of about Rs.2 odd crores of free cash that is net cash from operating minus capex and minus interest those are the three parts. But in last three or four years put together in fiscal 2019, 2018 and 2017 we have not been generating free cash so any thoughts on the same? How do you think about that?
- Chirag Parekh:** You are right, but if you see the improvement and Anand will tell you in last two to three quarters only we have a quite a bit of free cash generation which was not there in the previous year. You are right but Company had taken a lot of initiatives like new programs or products, we had some stock in hand, we had some new export client which had the largest credit period which extended our geographies across India and for that client we had to give some more credit period so I think these are the few reasons. Plus our operating margins which have now improved. So I think our cash generation, you will see in the coming quarters, it will improve from last year. We have quite a bit of stock liquidations and we expect to improve in terms of operating margins. Anand can you brief him about the last quarter what we have observed.
- Anand Sharma:** Yes what has happened in last few years and what has happened in last financial year was basically we were in expansion mode so we did a lot of capex and invested in the UK subsidiary. There was also repayment going on, last two to three years were the consolidation year for us to match whatever capex we are doing with the revenue and generation of the cash. This is a cycle which we completed in last two to three years and now we are at a stage where we can scale up the production without doing much capex. So we have reached to that capacity and going forward you see much free cash generation in the company. Free cash generation happening because we completed our first cycle of the upgradation and the enhancement on our capacity expansion.
- Rajat Chandak:** So we had a lot of consolidation phase
- Questionnaire:** Just to understand we shared our capacities and how they have expanded and an earlier gentleman also asked about that how we have grown so we have now at 5,00,000 units kind of capacity right now for Quartz, what volumes we would have sold in fiscal 2020 year ended?



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- Anand Sharma:** The total quantity sold last financial year 2019 was 4,32,000 units and current year 4,87,000. So that is a volume growth of 13%. Only for quartz sink then last year it was 3,45,000 units and for FY20 it is 3,78,000 units, so 9% growth in volume terms.
- Rajat Chandak:** Just to understand in terms of capacity utilization right when you say presently we have 5,00,000 kind of a capacity for Quartz Sinks that is actual achievable or it is like achievable is only probably 90% of it?
- Chirag Parekh:** Right now we are doing at 80%, With the 80% of our export market. So 5,00,000 sinks we would be completing that in a next few months' time. Since we are in a phase of expansion right now, we are at 4,50,000 sinks capacity at this point out of which we are 80% utilizing.
- Rajat Chandak:** Yes but when you say this 4,50,000 that is actually producible right now or it is not that it is the rated capacity and production will be lower than that, that is not the case?
- Chirag Parekh:** **No this is the** net capacity.
- Rajat Chandak:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.
- Prateek Poddar:** Sir I joined a bit late, could you just tell us your thoughts on domestic business and within domestic business which segments are now lower than company average margins, for example if appliances still below company level margins and how do you see the path to profitability or increased profitability for your domestic side of the business?
- Chirag Parekh:** I think for the domestic side of the business I think volume is the answer. I think our granite sink business is doing quite well, on the appliances and gross margin side also we are quite good and demand is the only thing now which we would turnaround the domestic profitability.
- Prateek Poddar:** Sir what is the differential of margins between say your sinks versus appliances versus bath fittings if I were to understand, I am assuming sinks would be the most profitable for you and how much is the difference between appliances and bath fittings today?
- Chirag Parekh:** I would say on that strictly on the gross margin side our bathroom business gross margin was the highest, later on my CFO can send you details. But as far as our bathroom gross margins are they are followed by appliances then by sinks. Bath products and the appliances are the more lifestyle products and they are lower in sales and we need to have our gross margins higher and fortunately in the sinks we have good gross margin but as high as the appliances and but in the Sink products there the volume is 80% of our sales. In our five year plan which we have said of Rs.500 Crores, we are looking at the bathroom products and the appliances not just for India but



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for export market and also so we are looking for a good large order. I think it is all volume game which we are expecting to come this year and next year. Unfortunately now this pandemic has just spoiled the party but now we will have to be a little bit patient and see.

Prateek Poddar: But in terms of capability Sir in the earlier question you talked about you were in the building phase and so has all the building blocks has that been built up and now it is all about scaling up or do you need to build more capability?

Chirag Parekh: I think in terms of whatever initiatives we have taken like product initiative, growth initiative and strategy initiative all are in place, and we just need to scale up now. .

Prateek Poddar: So in terms of dealer addition as well as human capital or capabilities all that is in place, all your waiting now is for the demand to come back and then grow?

Chirag Parekh: Correct, so now waiting is also another big question. How many days or months can anybody wait. India is going through may be a bad phase so what will be the growth story in India versus what is there. So our company has taken some very immediate steps and we are trying to develop products in the stainless steel sinks and the chimneys. We are trying to quickly develop products in chimneys and the stainless steel sinks for the export market so that is one thing. Number two is as for the bathroom products Sternhagen brand our company plans to launch the Sternhagen brand in America in Q2 FY21 so as to scale up. As the company believes in growth and we just cannot sit and wait for the Indian market to improve, we need to do something. So these are the initiatives company has taken to spur growth in the export market. So there are some manufacturing capabilities which we have to improve, which we are going to take about 30 -40 days time to improve to match the product demand for the export market but we have to do, we really do not have a choice.

Prateek Poddar: For your margin guidance, from a medium term perspective would it be higher than what we have reported today because as you build scale and I am assuming incremental growth further comes from appliances and bath fittings which have a higher gross margin, so would it be fair to say that the EBITDA margins would move directionally upwards only?

Chirag Parekh: You see there is no doubt. If we are going to have incremental growth the margins will improve. There is no doubt on it but question for the current year and next year is that how much is the growth going to come, from where it is going to come. That is the question but if the incremental growth comes then as what we have been planning if things normalize yes there will be improvement in the margins.

Prateek Poddar: Sir as you said your capex for the next year is Rs.10 Crores and incrementally going forward I am assuming the intensity would be lower, so is it fair to say that you would deleverage your balance sheet now and, would you start repaying debt?



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- Chirag Parekh:** I would not say that moving forward we will reduce our capex but I think the company will have good cash flows and will try to not just maintain but try to even lower its current debt.
- Prateek Poddar:** Thank you.
- Moderator:** Thank you. The next question is from the line of Manish Dhariwal from Fiduciary Capital Advisors. Please go ahead.
- Manish Dhariwal:** Good afternoon. Thank you for the opportunity. I would like to know if you throw some light on the working capital position of the company given the pandemic and given this thing what is the impact that you are facing on the inventory and on the receivable side?
- Anand Sharma:** I think on the receivable side, the only challenge what the company has is that we are trying to maintain our current credit period level with our customers though with the current scenario the customer is asking for more credit period but fortunately, we have been able to stay in the same credit period. We will stick to the same credit period moving forward too. . On the inventory side we see a reduction in inventory like which we had shared in the previous year. We as a company were in a growth phase. We invested a lot of capex and we have taken a lot of initiatives, we have built stock so we looking at what the current level is, we see a good improvement as far as the inventory and we see no issue with the receivables at this point of time.
- Manish Dhariwal:** Thank you. Do we assume that the inventory levels which were at Rs.60 odd Crores in March 2020, would they be going down?
- Anand Sharma:** Yes that would be definitely going down. We only have the inventory as far as Indian market is concerned but on the export side we definitely see the inventory moving down, because we have also cut down on the number of SKUs too. Let us see now how India turns out so we will have see what happens quarter on quarter on it, because we have built appliances stocks for the Indian market and also stocked some of the models of sink which we are specifically for regular market so it is very difficult for us to sell those products into other countries. We will have to now wait and see what happens in India.
- Manish Dhariwal:** Okay but we do not have any issues of dead or slow moving stock which might take time to liquidate?
- Anand Sharma:** We do not have any issue of dead stock or something like that.
- Manish Dhariwal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Keshav Garg from Counter Cyclical Investments. Please go ahead.



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- Keshav Garg:** Sir I wanted to understand that as the things stand today, in FY2021 will you be able to achieve the topline and bottomline that we did in FY2020?
- Chirag Parekh:** Well, if the things continued to be as what we wish to continue, I think where will be work and if unfortunately things do not go as you wish right so I think we are in a very uncertain situation and especially for the company CEOs to answer. I think it is very tough to say and I think what the job in hand for us is right now to try to focus on export market and try to see opportunities where the growth comes from. I think that is what we want to say and that is what we want to do.
- Keshav Garg:** Also like your presentation says that there are four global Quartz sink manufacturers and you are one of them, so are the rest of the three present in India?
- Chirag Parekh:** No. We are the only one in Asia whereas the other three are placed in Europe.
- Keshav Garg:** No Sir. I am trying to understand do they else sells in India or you a monopoly seller of Quartz sinks in India?
- Chirag Parekh:** They sell very little quantity, but I think we have a 99% market share.
- Keshav Garg:** That is great. Also Sir with respect to your American operations, I hope in the near term we do not see a hit from there I mean in terms of losses?
- Chirag Parekh:** No U.S. is already contributing 30% of the company's revenue. The only thing we are putting up is we are not invested like heavily into this. We just have a person and some smaller representative office there because we would see that there are some growth opportunities over there so I think the sales will improve there. So these expenses would be negligible as compared to what the growth we expect in the U.S.
- Keshav Garg:** Sir lastly in the first quarter, are we breaking even at the operating and net profit level?
- Chirag Parekh:** Let us see. I cannot comment about it at this moment.
- Keshav Garg:** Thank you very much. Best of luck.
- Moderator:** Thank you. The next question is from the line of Kartik Bhatt from an Individual Investor. Please go ahead.
- Kartik Bhatt:** Thanks for the opportunity. You mentioned that exports will be a major focus area this year and alluding to the previous question, there are three other companies globally who are in too in Quartz sink base. So, I just wanted to understand how big are the other three players and where are they based out of. I mean in UK, U.S. and how big are they in terms of capacities?



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- Chirag Parekh:** Approximately Schock Technology is about 3.5 million sinks, where we do about approximately 0.5 million, rest **three** are doing million plus from whatever information and data what we have. They are based out of Europe..
- Kartik Bhatt:** The other small question I had is I see a small increase in the employee expense in Q4 FY20, so is anything of significant over there?
- Chirag Parekh:** No, there is nothing significant.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** Thank you once again for the opportunity. You told in some previous question about for export 80% is non-branded and we are not interested to come out as the brand in foreign country? Can you elaborate on that.
- Chirag Parekh:** So, we are putting in all the efforts to make our brand prominent in the global market and that is why the American operation has been done is to launch our Sternhagen brand in the U.S. market. Unfortunately, we are not \$10 billion company that our brand is in place like Samsung or any other big brand so we have to bridge partnerships with the brand business in all the different countries and we increase and maximize our market share and we need to build strategic alliances with the big companies over there as they are brands already very popular in those markets, if you want to build a brand, you will have a negative profits in the company. But the company endeavor is to year by year increase their branded business.
- Ravi Naredi:** Sir how much is our advertisement expenses on annual basis?
- Chirag Parekh:** Our total sales expenses are less than 10% sort of revenue. I am talking about all sales expenses like marketing, advertisement including sales promotion and travelling etc.
- Ravi Naredi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.
- Prateek Poddar:** Sorry just coming back to this question of free cash flow and debt. Look if you think about your capacity utilization it is not at 100% and versus last three to four years your cash generation capability from the company has gone up substantially in my view around 2x to 3x because of the way PAT has grown right, so today you would have a very big scale versus earlier in terms of capex so what I am trying to get to is if you have 3x asset turn and if you were to spend say Rs.20 Crores of capex that would give you Rs.60 Crores of topline in a period of two to three years so then Sir somewhere you would need to consolidate right?



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Chirag Parekh: We will see as I think it is all about demand in the market and demand the company has what is very important. We need to see that the return on capital employed needs to increase and maximize so that we can still continue our expansion but we can reduce our debt levels.

Chirag Parekh: I am saying we see ample internal cash accruals of the company improving at year-on-year so we definitely see a debt consolidation that is what I am trying to say.

Anand Sharma: Just to add to this see we have set our goals, short-term, mid-term and long-term. For the short term goal of Rs.300 Crores we build the capacity, we consolidated and made it possible and we are very close to Rs.300 Crores so first phase of the consolidation value on date and the capex done. Now whatever capacity building and ecosystem will be required, for the scale up of another milestone of Rs.500 Crores, whatever required to be done we will do for further stage of growth.

Prateek Poddar: Last time you had raised some money via QIP, so will you again dilute your equity and do you believe you need to dilute your equity for incremental so that self sufficiency scale has been reached now?

Chirag Parekh: It's not QIP, it is preferential allotments to promoters and hence no dilution.

Prateek Poddar: Just one last question would you believe there could be some pent up demand in second half of this year or this year would be slightly on the lower side when it comes to revenue , how are you seeing May and June I do not know if that question was asked, but any insights on that?

Chirag Parekh: See western countries Australia and New Zealand has already showed now V curve at this point of time. Hence we have a bunch of export orders, otherwise the company would no way be working at such scale, I think very few companies right now would be working at 80% capacity. No company would work at 80% capacity if some demand is not there. So V curves or bounce back happening and we have seen in the U.S., UK, opening in France, Germany, Australia, New Zealand and China, more than 25 countries have shown some movement. So as of now the company has orders for the next two months and we see at least on the export side it is going to be very segmental, it will be coming from few pockets from the world, it is not every pocket of the world is going to show a growth but we do see that the companies will come out of the pandemic and shall open. Now, so we are seeing the demand coming from there. As far as India is concerned we have just begin, we are far to reach on the top and far to still turn out. So for India one good thing is that whichever markets have opened like south has opened up, few markets into east, we have seen growth also coming and orders are also flowing in from there.

Prateek Poddar: Okay but in terms of recovery is it fair to say exports will recover faster than domestic?

Chirag Parekh: Yes that is what we assume and I think that is what indicators are showing us.



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- Prateek Poddar:** Thank you and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Keshav Garg from Counter Cyclical Investments. Please go ahead.
- Keshav Garg:** Sir I wanted to understand your export margins are higher or domestic margins?
- Chirag Parekh:** In terms of net margins, export margins are higher and in terms of the gross margins both are same.
- Keshav Garg:** Sir you said that in domestic we are a 100% branded and in export we are basically B2B, so still you are saying that export margins are higher so can you explain the reason for that ?
- Chirag Parekh:** As forex right now is playing a big role for us.
- Keshav Garg:** Also I wanted to understand that what has been the realization growth in Quartz sink for last year as well as for last five year approximately?
- Keshav Garg:** Sir the realization growth, price per piece can you tell that say roughly?
- Chirag Parekh:** Price per piece, the realization per piece is approximately Rs.4,800 to Rs.5,000 for export market and for our domestic it would be about Rs.3,800.
- Keshav Garg:** How much was the realization approximately for quartz say five year back or last year?
- Chirag Parekh:** I think it was 5% to 7% lower than this.
- Keshav Garg:** Since we are monopoly Quartz sink seller in India, is there are any room for us to increase the prices because it is a premium product and since we are the monopoly player so is there any scope for increase in pricing?
- Chirag Parekh:** That is based on opportunity and the demand, so we will see how India shapes up and turns out to be and I think we will make a call then. Right now it is too early to say with this pandemic going on, markets still not opening I do not think it is good time to think about a price increase at this time.
- Keshav Garg:** Sir, are we planning to become a contract manufacturer in the domestic market also let us say for Jaguar and for other branded bathrooms and kitchen players?
- Chirag Parekh:** As of now it is not into the company's philosophy too bid for others but we will see in future if something comes up.



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Keshav Garg: Thank you very much.

Moderator: Thank you. Ladies and gentlemen that is the last question I now hand the conference over to Chirag Parekh for his closing comments.

Chirag Parekh: Thank you. We are happy with our performance led by greater emphasis of the team Acrysil raising bar in these testing time and achieve highest operational efficiencies. We are continuously focusing on growth drivers and expecting improvements in macroeconomic factors to entail, enhance momentum in the business. We are committed to create value for our stakeholders. We are thankful to all the investors, participants for joining on this concall. Goodbye and stay safe . Have a good day. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Acrysil Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.