OBL:HO:SEC:00: New Delhi : 27.07.2022

BSE Limited
Corporate Relation Department
1st Floor, New Trading Ring
Rotunga Building, Phiroze Jeejeebhoy
Towers, Dalal Street,
Mumbai - 400 001

Stock Code - 530365

National Stock Exchange of India Ltd.
Exchange Plaza,
Plot No. C/1, G Block,
Bandra-Kurla Complex,
Bandra (E)
Mumbai-400 051

Stock Code: ORIENTBELL

Sub: Transcript of Post Earnings Call for Q1 FY23 held on 22nd July, 2022

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, please find enclosed transcript of Earnings Call held on 22nd July, 2022 post announcement of unaudited financial results of the Company for the quarter ended June 30, 2022.

The transcript of the Post Earnings Call for Q1 FY23 is also available on company's website at www.orientbell.com under below path:

Investor Relations Section>Intimations>Investor Meet.

Yours faithfully,
For Orient Bell Limited

YOGESH MENDIRATTA Digitally signed by YOGESH MENDIRATTA Date: 2022.07.27 17:08:34 +05'30'

Yogesh Mendiratta
Company Secretary & Head - Legal

Encl: as above

"Orient Bell Limited Q1 FY-23 Earnings Conference Call"

July 22, 2022

MANAGEMENT:	**MR. ADITYA GUPTA – CEO, ORIENT BELL LIMITED** **MR. HIMANSHU JINDAL – CFO, ORIENT BELL LIMITED**
ANALYST:	**MR. SMIT SHAH – PARETO CAPITAL**

Moderator: Ladies and gentlemen good day and welcome to the Orient Bell Limited Q1 FY23 Earnings Conference Call. 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. Smit Shah from Pareto Capital. Thank you and over to you.

Smit Shah: Thanks Sanjoo. Good afternoon, everyone. This is Smit Shah from Pareto Capital. We represent investor relations for Orient Bell. On behalf of Orient Bell, I welcome you all to our Q1 FY23 earnings conference call. I have with me from the management Mr. Aditya Gupta – Chief Executive Officer, Mr. Himanshu Jindal – Chief Financial Officer.

We will have brief opening remarks from the management followed by a Q&A session. Please note that certain statements made during this call may be forward-looking in nature. Such forward-looking statements are subject to certain risks and uncertainties. Orient Bell Limited will not be in a way responsible for any actions taken based on such statements and undertake no obligations to publicly update these forward-looking statements.

I would now like to hand the call to Mr. Gupta for his opening remarks. Over to you sir.

Aditya Gupta: Thank you. Good afternoon, ladies and gentlemen. Welcome to our Q1 FY23 earnings conference call.

During the low base last year year-on-year comparison is not relevant. Moreover Quarter 1 is historically a weaker quarter in the industry. However, we have beaten the best Quarter 1 topline in pre-COVID years by 27%. We are happy to have successfully navigated the uncertainties and volatility around input cost in demand. The tight focus on product mix and input costs have helped us post a 9.5% EBITDA which is better than FY22 while simultaneously maintaining our discipline on trade receivables.

During Q1 we witnessed healthy traction especially on the project front, both in terms of actual offtake and buildup of new order pipeline. We have retained a strong focus on our own manufacturing and higher value more profitable products. We have been selective on projects and consciously decided to forgo some topline revenue rather than expose ourselves to credit risk. We implemented a 15% price increase in our manufacturing in end April. However, input costs especially natural gas has been going up month on month and this definitely impacts margins. In own manufacturing we are holding on to the price increase taken over the last 9 months. While on trading sales we have increased our discounts which have been compensated through better buying prices.

While Himanshu will share more details around the financial performance of the quarter. Let me briefly give you a quick some quick pointers on our key operational indicators. On the people front we have added new positions to support sales and manufacturing. Net addition of 20 people was done in this quarter and our Tooth to Tail ratio has improved to 2.35 from 2.3 last year. On the distribution front we have posted our 'Unstoppable' event in April and May across 11 cities and the management team starting with me have met more than 200 channel partners face to face over these 11 meetings. Foreign travel schemes for our premium channel partners were organized during Quarter 1. We have also added 20 exclusive tile boutique stores Orient Bell Tiles Boutiques, a net addition of 20 which brings the total number of operational displays to 305 as of 30th June 2022.

On the product side, we have our share of own manufacturing to sales at 75% versus 67% last year Quarter 1. Thus, ensuring better profitability. Our new product introduction continues to drive revenues and this has contributed to 17% of our revenues in Quarter 1 FY23. Digital has been a major differentiator for OBL and we continue in our efforts to make tile buying and selling easier. Multiple initiatives via online forums and social media platforms grow outreach to build awareness and preference with both B2B and B2C customers. Some exact statistics on our digital reach which is June '22 versus June '21. Our website engagements have increased by 4 times, our social media engagement has increased by 1.6 times.

With this I request our CFO – Himanshu Jindal for the financial and other updates. Over to you Himanshu. Thank you.

Himanshu Jindal: Thanks Aditya. Good afternoon, all. A normal quarter, one after the gap of 2 years and that too best Quarter 1 in terms of the highest ever the sales value and profitability for OBL. Like Aditya mentioned relative comparison at least on revenue and profitability with last year is not too relevant. Comparing Quarter 1 FY20 which was the first or let me say the last normalized quarter that base line I think we have finally achieved what we finally achieved in the last quarter, on revenues we were 27% up, on volumes basis 6% and the ASPs were higher by 20%. Cost continues to be a key watch. We did get impacted by steep inflation in energy and other input costs. But we were still able to mitigate part of this via the strategic interjections that we had introduced last year itself. So, we further optimized that consumption KPIs and implemented more economical alternative sourcing options, especially for power and fuel. Again, on a relative basis savings from these interjections on a Y-o-Y basis looks steep because of the low production base last year but on a more comparable and like to like basis, we did save approximately 1.8% in production cost sequentially versus the last quarter which is Quarter 4. EBITDA expanded; we did 14.6 crores which is almost double of what we managed to do in Quarter 1. Even in terms of margins this meant an improvement of 370 basis points to 9.5%. While the consolidated PAT too improved to 7 crores, up from 0.5 crores in Quarter 1 FY20.

On the CAPEX front, two more of our projects at Sikandrabad and Dora have got implemented end of June, well within the time and the agreed budgets. The Hoskote expansion project too is progressing well and we do expect commissioning of this new line within the indicated timelines.

On the balance sheet front, we continue to remain cash positive despite paying for the ongoing CAPEX projects and our working capital cycle remains comfortable as well. I think we can request the moderator to open the line for Q&A please.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Arpit Shah from Stallion Assets.

Arpit Shah: I had couple of questions, at Orient Bell in the last 3 years you have improved upon debt, you have improved on working capital, have got almost all the things right even be it on tech. So now how do you want to scale up because you are being stuck in the band of 590 -600 crores of revenue? How do we break out from this and go to 1000 crores and what kind of triggers you all have or what kind of things you all have got in place which can help us accelerate our growth given the top line front going ahead?

Aditya Gupta: The way to get to 1000 crores for us involves a few initiatives. First which you already spoken about was to get our house in order which in terms of our product mix, our execution ability, getting our receivables and profitability in shape and all. this is something which we have been putting out good results quarter-on-quarter and kind of improving with every reporting period. Now going forward I think we have also started our CAPEX cycle as Himanshu spoke about for the last 2 years we have been adding to our capacity. We have added close to 5 million square meters or will add close to 5 million square meters over the last 2 years. So that is something which is ongoing and we are also actively looking at other capacity expansion possibilities. How are we going to play that as far as in the market I would say that we are clear that we are late starters. There is a big gap between us and some of the market leaders. And we have to do things a lot differently to be able to bridge this gap and as I have spoken in the past, the biggest thing which differentiates us is a very strong focus on digital and our vision on making tiles buying and selling easy. We continue to see a lot of traction on this. I talked about the (+200) channel partners we met face-to-face across 11 cities in the month of April-May and the feedback that we are getting from them very consistently is that, our efforts on digital, our efforts on digital advertising and the tools that we have put out there, making life easier and simpler for our channel partners. So, over the next few years we have to expand manufacturing capacity, we are working on expanding our distribution and display footprints and as you are seeing strengthening our sales team in numbers and quality to get to that figure.

Arpit Shah: Technology is one of our biggest strengths that is what you have been highlighting out. So, let's say today someone else or some other leader wants to build out a technology for themselves, how much time would they actually take to build that? Because you have already spent close to 2 to 3 years building out the tech, building out the digital capability, how much time would it let's say for another company to take to build and what kind of moats are built around?

Aditya Gupta: The technology is I would say easier to build, yes, so it has taken us 2 years, somebody starts today…when we started building this whole thing up, there was nobody within the tile industry that we could look up to and learn from. Somebody starts today, I am sure they would be able to do it in a lesser time period, the technology path. But I believe that much more than technology is the anthropology which is critical here. By anthropology I mean that it is easy to have technology there to have the tools there but it is extremely difficult to convince your internal teams and the channel partners, you have to use it. That's where I call the anthropology part and

I have been done this stuff and that is the real moat I would say because for somebody who has been born and brought up and has seen success in the traditional way of doing things for that leadership to be convinced that they should try something different, it takes time. So, while technology I think in maybe a year, year and a half people would be able to build but to get the people to use it would take much longer time.

Arpit Shah: Just one more question, yesterday market leader also reported their results and we also reported our results, I just wanted to understand the seasonality difference between both the companies, Kajaria reported 10% or 12% Q-o-Q drop and we reported close to 27%-28% Q-o-Q drop. So, what kind of product mix is accentuated or what kind of customers we are serving which are different than they're because the drop was typically massive for us on a Q-o-Q side but historically it has been there but for Kajaria it was a normalized quarter where they had probably 10% drop in terms of that. So, what is a difference in seasonality between two companies?

Himanshu Jindal: There is a factor of seasonality for sure between Quarter 4 and Quarter 1. Someone has lower impact; someone has a higher impact and I think what we need to appreciate here is the way our sales are structured versus let's say that of someone else. In our case, very clearly you know as we have mentioned in the past also, our projects sales are little higher than what others have. Traditionally this is how it is. So, this obviously plays a role, you know that most of the projects are approaching us and taking supplies from us closer to 31st March and stocking that. Therefore, we get hit a little bit more in Quarter 1 but over a normalized full-year I think you will see our performance is improving quarter-on-quarter, every single quarter is different for us. We tend to do better in Quarter 3, Quarter 4. This has been historical.

Arpit Shah: What will be the retail versus the project mix for us?

Himanshu Jindal: Based on the definition that we have been saying now consistently for the last two calls, this would be anything between 20% and 25% would be you can classify that as projects .

Moderator: Next question is from the line of Rajesh Kumar Ravi from HDFC Securities.

Rajesh Kumar Ravi: I have two questions, first could you share how much is the export revenue for you of the total volumes, total sales?

Aditya Gupta: So, you are asking about the percentage of export revenues, correct?

Rajesh Kumar Ravi: Yes, in your revenue mix how much is exports this Quarter 1 and for FY22?

Aditya Gupta: Insignificant, Rajesh. Wouldn't even be half percent.

Rajesh Kumar Ravi: You are mostly a domestic based player.

Aditya Gupta: We are mostly, we are totally a domestic player.

Rajesh Kumar Ravi: My second question pertains to the gas prices. You have mentioned in the presentation that your north plant Sikandrabad I believe you have writtenthat the gas prices have shot up sequentially, even more than 100% in Q1.

Aditya Gupta: We have said that it is for Dora plant, not the Sikandrabad. The Dora plant has gone up by 100%.

Rajesh Kumar Ravi: Morbi?

Aditya Gupta: Not Morbi, this is near Baroda in district Bharuch.

Rajesh Kumar Ravi: Just wanted to understand what is happening on the gas front, how much was the actual impact on the gas prices in Q1 and what is the situation in Q2.

Himanshu Jindal: In our case like we have always mentioned there are three plants of our own, there are two JVs based out of Morbi. So Morbi is something that you all are aware of, the price is around 68. In our own plants obviously, one is at Sikandrabad, which is in UP next to NOIDA, the other is like Aditya mentioned based out of Dora, next to Baroda and finally there is a third plant which is next to Bangalore, Hoskote. There are different pricing agreements there, different kind of contracts, all via GAIL. And yes, the prices have been pretty volatile, every single 15 days at least in Sikandrabad for example prices are changing. So, what we said now in our release also was that we have been hit at Dora which is the cheapest gas that you get, it's been doubled up. This price will continue at least till September end. So, the same price continues from 1st of April till 30th September because this is a APM contract. It may go up; it may go down; it will all depend on what the government finally agrees for. So far, the trends are only indicating that this will further go up, this is how the Henry Hub is at least reflected. In terms of whatever we get at Sikandrabad, Hoskote yes, the price has been volatile. Like I said its stated in the range of 55-65, in that range over the last 6 months.

Rajesh Kumar Ravi: Q1 could you give us split of the costing across the four plants.

Himanshu Jindal: So Sikandrabad would have been close to 60, Hoskote would be Rs. 5 dearer, roughly around that level and then finally Dora would be around 22-23.

Rajesh Kumar Ravi: And this Morbi was 68?

Aditya Gupta: Yes.

Rajesh Kumar Ravi: And where do they stand currently in Q2?

Himanshu Jindal: Q2 only 15 days have gone by, 20 days, so only the first cycle has come up but yes the prices have moved up further.

Rajesh Kumar Ravi: So, by how much current prices would be versus these average numbers?

Himanshu Jindal: Approximately Rs. 5 more in Sikandrabad and Hoskote.

Rajesh Kumar Ravi: And Dora is almost 46-50 rupees?.

Himanshu Jindal: No change at Dora, no change in Morbi.

Rajesh Kumar Ravi: Dora is already increased to 23, so Dora and Morbi are flattish and rest are higher slightly by Rs. 5 is what you mentioned.

Himanshu Jindal: Not yet.

Rajesh Kumar Ravi: And the market leader yesterday was talking that with export market remaining strong we expect it should have a positive bearing on a market, what is your reading, what is if exports are strong why are Morbi unorganized players taking a shutdown? Where is the calculation mismatch in terms of demand and supply leading to shut down for a month?

Himanshu Jindal: So, I think first of all let's understand what export market is, the normalized run rate on export used to be in the range of 700 to 750, maximum 800, pre-COVID. The run rate in last quarter in Quarter 1 of last year, last fiscal was approximately 3,500 in that quarter and on value terms even in this quarter, the last quarter which has gone by Quarter 1 FY23, on value terms we are more or less flat which translates into something like 1100-1200 kind of a run rate a month. So yes, the exports have gone up, it's not gone down, first of all. Second, there is definitely a lot of new capacity which has got added in Morbi, some 85 odd plants adding up on to a base of 800 odd, means at least 10% of capacity by number and because these capacities are much larger in size, more efficient in percentage terms this could be even higher than 10%. Please do also appreciate, so one side is this whatever is demand supply and why people are taking certain calls. You also need to get aligned to the idea that the energy costs are continuously going up more for Europe, so the capacities which were competing with us globally it will be Italy, Spain and then the prices have gone up from almost like 18 months back it used to be let's say around €20 per megawatt hour. What I read was it was €80 last month, this month its already 160, so it's doubled up. So that means that these guys are obviously facing heat on inflation much-much more than the people onshore here in Morbi. Even the container freight movement, the container freight rates have gone down. Why we were not able to do as much as we wanted to do, the one reason for that was definitely the container freight rates going up last year. With this coming the energy costs going up in Europe, there is a favorable impact which will come in, definitely this year. So how much, how soon we need to see. I think what Morbi is doing in a way because you also need to appreciate that they took a similar shut down last year, then there was stability, the prices went up because of the costs going up etc. They have learned from their experience they are only trying to see if it works now as well, knowing that there is new capacity already, knowing that they will be in a much better bargaining position vis-à-vis the customer than the vendor. I think it's good for them, they have decided this. It's all the better for us as organized players.

Rajesh Kumar Ravi: So, what I take it from your commentary is that the export market remains at similar levels buoyant level of last year same quarter 3,300-3,500 crores types, benefits of the surge in gas prices in Europe is not yet reflected in current quarter sales but in in subsequent quarters Indian Morbi players should benefit from this arbitrage, is that understanding correct?

Himanshu Jindal: Yes absolutely.

Aditya Gupta: Rajesh I will just add one more thing, when we say that the exports are flat, we are talking in value terms but understand that there has been a steep increase in per square meter prices in the last 12 months even in Morbi. So, if you factor that out in volume terms you could easily say that the exports are 10% to 20% lower in volume terms. That has a direct impact on the number of units which can stay up and running.

Rajesh Kumar Ravi: That is an incremental supply of more than 10% is adding to the near-term certain imbalance and hence this one month shut down could try to balance it out.

Aditya Gupta: The extra capacity of 10% coming in, the volumes on export going down by 10%, then we are talking about 20% gap in supply and demand.

Rajesh Kumar Ravi: Your capacity now is around 35 MSM?

Himanshu Jindal: It's around 32, like we always say there is a possibility to sell more via outsourcing, so we converted our Dora line from ceramic to vitrified, so we are saying that approximately 1.2 more we can add easily out of outsourcing.

Moderator: Next question is from the line of Achal Lohade from JM Financials.

Achal Lohade: What I wanted to check was, if we look at the volume growth which is about 1% on a 3 year CAGR and I am sure we have gained market share, so how do we look at the domestic industry? Is the domestic industry seeing a declining volume or it's kind of flattish, how do we look at this?

Aditya Gupta: I think last year was a great year in terms of FY22 volumes and everything kind of moved up. Quarter 1 also has been up but there are also some negative signals and some this thing in the market, whatever things you are talking about, what Rajesh was questioning in terms of why Morbi has taken all these shut downs. So, I feel that all this inflation happening, things becoming costlier there is possibly going to be an impact on volumes but let's wait and watch. How much of this impact on volumes, negative impact on volumes is getting covered with Morbi actually shutting down and all time will tell. But from our perspective we are kind of cautiously optimistic for the future. I think it's a great time to be in organized tile industry. After many-many years in terms of our cost base, in terms of compliance requirements and all we are quite competitive with Morbi.

Achal Lohade: How easy or difficult is to outsource, a) in terms of the availability of the capacity, b) in terms of the quality of the supply and c) the pricing?

Aditya Gupta: It is comparatively quite easy. We maintain a large team in Morbi which is not just a sourcing team but also a very strong quality team which ensures that every time we get a vendor and every time a batch is made the quality check is done by an OBL employee before it is packed and shipped out to the market. So also, we also enjoy extremely great reputation in Morbi in terms of paying on time, in terms of never ever having had a dispute with any vendor in Morbi over the last 10-15 years. So, it is not a problem at all and in the last 2-3 months it has been more a buyers' market in Morbi than a Sellers' market. So, from that perspective, you walk into any vendor with a requirement, we are welcomed with open arms so its not really an issue. It is an issue for some players which have had kind of patchy history in terms of paying up on time and disputes and all but for Orient Bell it's very-very smooth.

Achal Lohade: And just a small follow-up on that. What is the lead lag with respect to how soon does the capacity become available? Let's say you have a demand for let's say 10,000 boxes. How easy is to add this vendor? Does it take couple of days, a week or 15 days or anything, if you could clarify?

Aditya Gupta: Broadly I would say it would be couple of weeks and all because it would mean some kind of a new design creation, your matching of tile to an existing design and all, some developmental work and all. So, it could be I would say maybe from I mean if it's a new design I am talking, it would be from say 7 days to maximum 20 days.

Moderator: The next question is from the line of Naysar Parikh from Native Capital.

Naysar Parikh: Just on the Morbi plan, just want to clarify so even our JV plant there will be shut down for a month and does that impact which we assume that impact to our sales because 25% comes from there?

Himanshu Jindal: So Naysar, our plants are going to work. There is no impact on the JV operations and also with our trading counterparties we have sufficient stock so that should not be a problem.

Naysar Parikh: On the Dora gas prices you mentioned they are going to continue to increase. So, what is the main reason for that increase like is that the lower prices incentive that we had, is it going to away, should we assume, they will come at par with in the 65 range, going in the near term?

Aditya Gupta: Naysar your line is not clear. Haven't understood the question. Can you please repeat?

Naysar Parikh: Yes. My question was on Dora gas prices. Should we assume that the lower prices benefit that we have will go away in the near term and it will come to the 60-65 range in par with other plants?

Aditya Gupta: I don't think so. There are large number of units who are on this administered pressing mechanism gas and the way it works is that this is gas which is produced from small local fields and to make an infrastructure, to kind of evacuate this gas in terms of pipes and everything is significantly more expensive. So, it has always been that this gas gets consumed closer to the well. So, I don't think so but at the end of the day this is something which is determined by the Government of India from time to time. The price of Rs. 11 which we were paying till in FY22 had been there for I would say almost 4-5 years or something like that. May be about 13 into that totally. An average of repaying, the average of about Rs.12 or Rs. 13 in FY22 which has been constant for 3-4 years or so.

Naysar Parikh: On the digital initiatives that you have mentioned I just want to check. Do you kind of track the impact of it on sales like either what percentage comes in the digital channels or even the tile boutique that we have or the experience center, what percentage of people who go there actually, make a purchase or something like that? Is there any quantifiable metric that you track?

Aditya Gupta: So Naysar yes, we track a lot of KPIs. For example, I did mention that, for example our website traffic compared to June '21 versus June '22 is 1:4. So these are metrics and all which you look at every month and also the various other things in terms of social media followers, the number of users of our digital tools and all. So salience, our figure, the usage of all our digital tools put together, June '21 versus June '22 is up by about 45%-50%. That's the benefit of digital that you can track everything.

Naysar Parikh: I actually meant the impact on sales because how much of this, like how much of the increase in website or social media engagement actually translates to more volumes? Like is there any way to kind of track conversions rates or something like that, do you track that?

Aditya Gupta: Naysar, that is what slightly more difficult thing to do. We do get leads and all through our website that this, we track that but typically what I can say is that in our industry we do not have a window into the secondary sales from our channel partner, from our dealer. So, in the absence of that data, it is kind of impossible to know exactly how much, quantitatively but as you said when we are meeting our channel partner of and we see the kind of interest, when we started on this journey of digital 3 years back, people used to look at me with totally blank faces and say what the hell, this is not something which works in our industry. And today 2 months back when we had this various town halls, we met this (+200) channel partners; where every one of them was hungry for more. So many of them told me that we don't understand this but my son is 25 years old, 30 years old and all and I would like him to be trained in all of this because he understands this much more, I don't. So, we are seeing that traction and we are seeing that feedback has been extremely positive across.

Moderator: Next question is from the line of Devesh from D S Investments.

Devesh: Just a quick question in terms of your opening commentary. You sort of called that you did let some of the project business go. Just if you can share some qualitative aspects that what is the framework, how we decide this about letting off go some of the work? Is it like completely gone or it's going to add up in coming quarters?

Aditya Gupta: Devesh, these are projects which typically would have a lifetime of say 1 to 4-5 months and there is one product category which is your nano and double charge where we have seen a lot of aggression on pricing, margins which we feel are absolutely unsustainable and also a lot of places where both margins were very low and the credit history or the credit profile of the customer was not too good. So, these are the areas that we are kind of stepped back from. We still do some medium to low margin business where there is zero credit risk if the customer is willing to play in advance but areas where there is uncertainty about payment timelines and the margins are low, we are consciously trying to keep away and a lot of that business has come in Quarter 1.

Devesh: Just connected question. If you could help us, you already called out that from here on quarters, every quarter would be some improvement and last two quarters were H2 being stronger for us? In terms of margin do you think that would be similar trajectory or you think lot of variables at play?

Himanshu Jindal: See Devesh, there are too many variables for sure. You know how the global economy or the entire system is looking right now, it's pretty fragile but having said that despite all this volatility one thing which I said, which I will hold on which is the scale. As you know traditionally all our other quarters have been pretty strong, Quarter 3 is stronger than Quarter 2, Quarter 4 is generally stronger than Quarter 3. So at least that scale advantage will come in which will help us improve our margins to that extent but yes, pricing and variable costs are not in anyone's hand, right. We will try and do what we can do at least on product mixes and making our lines far more efficient. Our production process is far more leaner to the extent possible. This is what we have been doing, I think we will continue to do that.

Moderator: Next question is from the line of Amit Jeswani from Stallion Asset.

Amit Jeswani: Just been looking at your journey for the last 4 years, you guys have done a wonderful job I have barely seen ever. A mid-size company like yours having better balance sheets than the market leaders. So, well done on that side. Just trying to understand that what my team member was asking about how do we scale from Rs. 600 crores? We have already got let's say the tech right. We have optimized on cash; we have got the balance sheet right. Now comes the scale up part. How will we, because we are already at let's say 90% capacity utilization on our own manufacturing this quarter but how do we get to let's say Rs. 1,000 crores like basically if the market leader is growing at 15%-20% volume growth, that is what they guided for yesterday on the con-call. How do we scale faster than, what is the advantage that we have? Is it the cost advantage like what are the things that we will have to create to basically move from Rs. 600 crores to Rs. 1,000 crores at least?

Aditya Gupta: I think great question. I partially answered this in Arpit's first question. So, I won't repeat that, that's part of the answer but I can add a few more things to this. See, we have historically been a North and an East centric company. If you see our investor presentation, you will see there are large, disproportionately large part of our business comes out of North and East and South and West which by themselves are very-very big consuming markets, where Orient Bell has been very weak. So, one area of scale up you talked about flooring getting from Rs. 650 crores Rs. 1,000 crores and beyond. One part of the puzzle, one part of the solution lies in South and West where it's kind of a virgin market for us. So that's one part of the equation that we have to fix. Just to give you a sense, last year we did about 70% of our business was North and East. South and West was just about 30% of our business and obviously this is not how the market is. The second part of this scaling up Amit is the product profile. We have about 60% ceramics, 40% vitrified. In vitrified also I focused on GVT. The larger companies that you are talking of would have that the ratio would be reversed. There would be barely 60% of vitrified and 40% of ceramics. This is another big opportunity, big growth area for us that how do we build up our vitrified, our product profile, that is one part of it, on the product side across the country and the second part is how do we disproportionately grow and get the West and the South business firing for ourselves. And on the tech piece and on the discipline on balance sheet and stuff which you are doing would help us create the resources for all of this scaling up.

Amit Jeswani: We are at Rs. 150 crores revenues. How much would be the tech piece which would have contributed on this Rs. 150 crores?

Aditya Gupta: Amit, difficult to say, to give you an exact this thing but for example, our OBTB, the Orient Bell Tile Boutiques which are displayed, they give us about 35%-36% for total sales. Now these are the places where the consumer actually comes face-to-face with all the technology tools that we have put out there and this figure, 3 years back-2 years back which was about 30% of our sales, last year it was 35% of our sales. We are adding, our net adds, not even gross add, I am talking of net adds there. Q1, we have added almost one OBTB every 4 days or so. Last year also we have kind of maintained that same pace, we expect to keep growing it obviously with South and West is our focus. So, we are getting a lot of results. It's not like an e-commerce business where people are going on to our website and ordering things. We wish and give you a clear answer that so many people are ordering online and all. So, it is an online -cum- off-line business. People are using our online tool, our digital tools to discover Orient Bell, to discover our products, to do some kind of a shortlisting of our products and then they walk into the OBTB, we display this thing to our dealer point and complete the purchase. Unfortunately, the way, such are days the dealer secondary is something which we are don't get visibility on.

Amit Jeswani: Just one last question on the pricing power side. Is our pricing in line with let's say the market leader on we have to give lesser 3%-4%-5% discount?

Aditya Gupta: We are at a discount to the market leader definitely and that shows up in the EBITDA margins also. I think for last quarter also there was 5% or 6%. So, we are at discount with them but I would say that except the market leader, we would be almost at par with every other players on pricing. Anecdotal as it is, we view the projects that we lose every month with our enterprise team and I have seen say that over the last 6-9 months, the number of projects that we are losing to the Top 2 or Top 3 tile companies is much-much higher than what we used to other players and all. We're kind of getting closer to them in pricing. We also took one of the price increases that we took last year, I think last year the price increases that OBL took were much more than any company and I repeat any company in the industry. We are kind of held on to those margins.

Amit Jeswani: Market leader does an ROIC of broadly 25%-27%, right? How do we get to that (+ 20%) ROIC mark, if we are selling at discounts? We will have to create some kind of other efficiencies, to get to the 20%-25% ROIC? Is that the goal that we have that we move to a 20%-25% ROIC business model?

Himanshu Jindal: See, I would not talk about after issues right now. Let me say what we have been doing. We have been improving our EBITDA margins every now and then and we have been actually trying and pushing more money into strategic areas. Whether it is from the people front, whether it's from marketing initiatives etc. We are putting in, just to share with you, non-marketing, accounting in whatever support we give on sampling, on COCO, on our own manpower which is housed there to do all these marketing initiatives, all of that put together broadly in the range of 3.5% to 4%. This is what we spend because unlike the past I think we're pretty clear that these are areas where we need to invest on. To be able to get us volumes, to be able to scale up like you mentioned at some point in our conversation. So, idea would be to continue doing all of this and continue to improve our EBITDA without meaningful drag on the balance sheet. If all of this happens then automatically your question on ROCE gets answered. It's improved from the past; I am sure it will keep on improving. Maybe just to add on the scale up piece what Aditya spoke about, see you need to appreciate there are investments that we have already done or announced. This is adding almost 25% to our capacity, to the baseline capacity that we had let's say in the beginning of October '20 when we started with this CAPEX cycle so almost 2 years back. With all of this new capacity coming into play, the moment it gets digested fully, you automatically get that advantage on the scale up, apart from whatever we are doing on our distribution, on multiple other things that Aditya talked about. So yes, all of this, plus whatever opportunities we are able to get out of trading, all of that should help us to move to the ranges that we talked about. Is that helping?

Amit Jeswani: Yes.

Moderator: Next question is from the line of Keshav Garg from CCIPL.

Keshav Garg: Taking over from the last speaker's question like talking about conversions between our parameters and the market leader. In the fourth quarter of last year, we had closed that gap in terms of margins by large extent, by doing 12% operating margin where as the market leader was at 15% operating margins. So now in the first quarter, our margins have declined from 12% to 8% whereas the market leader has maintained 15% operating margin. So, I am unable to understand that seasonality should be affecting the whole industry like for example during the monsoons, all the cement company sales are down. But how is it that the market leader sales quarter-on-quarter have declined only by 8.5% where as our revenues have declined sequentially by around 29% and I the guess operating margin is the function of operating leverage so that follows. So basically, the question is how is it that seasonality is hitting us so much. Is it that the North and East the geographies where we are present are more prone to the seasonality?

Himanshu Jindal: Hi Keshav. I think you have partly answered the question yourself. Seasonality definitely plays, number one. I have mentioned this to someone else as well when we were talking about this, to Arpit. In our case like I said we do more projects and therefore when we stock up more or when we sell more to projects end of March, they stock up and they obviously don't buy in Quarter 1. So, seasonality has always been there in Orient Bell versus let's say the other players. Our Quarter 2 is bigger than Quarter 1, Quarter 3 is bigger than Quarter 2 generally and quarter 4 is obviously the best. This is how it has played at least historically for Orient Bell. Now coming to your question on the margins, I think what you should also remember is how our margins are improving on a YOY basis or let's say something which is pre-normalized quarter, Quarter 1. Compare Quarter 1 to Quarter 1. If you will start comparing sequentially, yes there is a merit of doing that but then the scale and the efficiencies also come into play. I think what you should appreciate is that the costs are going up which is very-very clear. The fuel cost per se has gone up much-much more. Even the input costs are rising at the same time. That scale not being the same as Quarter 4, obviously you had an impact coming into play in Quarter 1. Part of this was negative like I said via the, how do I say the pricing which was already there last year, the increases that we implemented continuing to stay put. We also took a bit of a price increase in April end which also helped but more importantly I think we have been working extensively on the cost optimization front. So just to give you a sense on a like-for-like basis, I mentioned in my opening speech we were still down 2% sequentially. So that's the saving which have flowed into the P&L whether we see this or not. So, I think we are doing what best as possible under the circumstances with leverage coming into play, the scales coming into play post expansion etc. that should get addressed. I could have obviously cut down on my investment onto strategic things like I said on people front and still hired 21 headcounts. We did invest on marketing like I said 3.5%-4%. If I wanted, I could have cut it down very easily and then let the margins be where it could have been. But I think the idea is not to cut corners very-very clearly and I think Aditya also mentioned that we actually allowed a little bit of project to actually go off. Because of the aggressiveness that was perhaps demanded on the pricing up or the credit side. This is not something that we wanted to do immediately. We didn't want to a lead on pricing or credit aggressiveness on the market.

Keshav Garg: Lastly just wanted to understand about the demand environment in general and also the possibility of taking further price hikes since you mentioned that gas prices are still going up?

Aditya Gupta: Let's see, Quarter 2 has just started as I said earlier. The volumes are softer than the top line this thing, volume growth you have seen yourself is lesser than the value growth across. Let's see how it plays up. In terms of pricing, I think over the last 9 to 12 months we have recovered, we have increased our profit margins, obviously means that we have passed more than the cost for sure into the market. So, I don't see any immediate initiative to push selling prices until and unless even things at the industry level get a bit cleaner and a bit smoother.

Moderator: The next question is from the line of K. R. Senthilnathan from NAFA AMC.

K. R. Senthilnathan: Just want to know how much is our percentage in terms of North and East and South and West on an overall revenue, in Q1 vis-à-vis last quarter?

Aditya Gupta: I think it is 70 is North and East and 30 is South and West.

K. R. Senthilnathan: And vis-à-vis last quarter?

Aditya Gupta: Last quarter was also the same.

Moderator: Next question is from the line of Kamlesh Kotak from AMSEC.

Kamlesh Kotak: I just want to have a broad understanding of what's your assessment of medium to long-term demand outlook across all the four key markets, maybe retail, commercial, government and project on one side and also if you can highlight the same from the context of rural versus urban or Tier I-Tier II markets?

Aditya Gupta: Kamlesh, the Tier I-Tier II markets would definitely lead the growth. So, for that we have been seeing for the last couple of years and I think that kind of similar trend which will maintain, that's one part of the answer. Second part medium to long-term, I am very bullish, see the building and construction industry has been coming out of recession after the multiple shocks of demonetization, the RERA implementation, GST and all of that. I think people are building, people are getting back into real estate. So medium to long-term I am very bullish about the building and construction sector and if building and construction sector does well, we automatically do well. There is a short-term worry in terms of how inflation is panning out in terms of cost, construction cost which involves not just us but steel, cement and etc. and all. So, there might be some pitfalls for one or two quarters here and there as but long-term, I'm very positive.

Kamlesh Kotak: Can you dissect it further from the residential, commercial, government and project point of view? Which are the pockets which are leading and laggard which you may see?

Aditya Gupta: The government has been building quite aggressively and my sense is that the government and the private sectors would lead the growth. Not much of figures are available on this kind of a breakdown on demand but my sense is that private, residential and the government project business would continue to do well.

Kamlesh Kotak: And just one more bit of understanding. You said 70-30 is between North-East and South-West, is the revenue mix. How is our distribution mapped across these regions?

Aditya Gupta: I guess it's in similar range within that region we have reached in South and West is that which we have, do not have the distribution channels, we do not have the display, the OBTB isn't there. That's the way it has historically been.

Kamlesh Kotak: So, are we consciously working towards getting more of a traction in the other markets in terms of distribution, ramp-up or marketing spend? Is there any strategy that we are working on?

Aditya Gupta: Yes, we are, as I said earlier this is South and West growth we have identified as a major opportunity for us and for example we have added people, we have split some of the larger zone now, we have a separate South 1 and a South 2 zone. We have added manpower, in Western India both in the project business and in the retail business. So, all of this is already been done. Now we are in the process of adding up our distribution, our channel partners and display areas and all. There is a conscious strategy behind it which is being executed.

Moderator: The next question is from the line of Bismith Nayak from RW Advisors.

Bismith Nayak: Just one question on project mix. How have we changed from Q4 to Q1?

Aditya Gupta: Q1 was the same as last year. So, I have just said this before also, we are now classifying projects as one which have done at least a 3000 square meter volume in the quarter. That's what we are kind of calling project, just for the sake of consistency. So, this quarter it was 21% and I don't have the Quarter 4 figure in front of me but I think it will be higher than 21%. Typically, Quarter 4 is where a lot of projects gets closed.

Bismith Nayak: What is the general ballpark for Quarter 4?

Aditya Gupta: FY22 full-year number of projects was also 21%. So, the first quarter is at par with that. May be Ashish, you can just note it down and just pull out the Quarter 4 figure from I think it is the 3%-4% higher, there is a ballpark figure but I don't remember exactly. May be Pareto team can actually give you the exact numbers later.

Bismith Nayak: This seasonality is only to do with projects and not to do with geography or vitrified mix or anything, correct?

Aditya Gupta: I didn't get the question.

Himanshu Jindal: Can you repeat the question please?

Bismith Nayak: Yes. So, the seasonality that we have seen which is higher than the market leader. This is only because of our higher project mix related to the market leader, and not because of geography or change in mix or any other factor?

Himanshu Jindal: Largely what you said is right, largely.

Bismith Nayak: So, Q4 number would be around, do you have it in front of you or?

Himanshu Jindal: What do you mean, Q4 numbers?

Aditya Gupta: So project percentage wise he is asking for; we don't have it right now.

Himanshu Jindal: That we will provide to you separately.

Moderator: Next question is from the line of Naysar Parikh from Native Capital.

Naysar Parikh: My question is on capacity. You said you are at 32 million. Where would we be by year-end and given that we are already at 90% utilization and that you are bullish in the demand, what is the plan after that? If you could just highlight that?

Himanshu Jindal: Naysar like we shared our capacity, there are two plants which have gone live, in terms of the CAPEX which has gone live on the 28th of June, right. So, the last year, the last quarter capacity utilization of 90% does not include the new capacities which have come up already. So that should give us a kicker, already now in Quarter 2-Quarter 3. More importantly the Hoskote project which is going on right now should close sometime in Quarter 2-Quarter 3, it's on track. By the end of the year, we should be close to let's say 33.8 or something plus like I said there is already a kicker available in terms of the incremental volume potential by outsourcing some of our low value, low margin products to Morbi. So that's in total what we are saying is approximately 35 million square meters available to us one way or another. So that should give us enough headroom to grow in this year in terms of volumes. Moving on yes, like I have shared on the previous calls also, there are things in the making, I don't want to discuss them right now, allow us more time. I think we have already done 25% of our baseline in terms of volume expansion, in terms of the capacity expansion. Give us more time, I'm sure we will be able to give you some more details around the larger CAPEX as and when it is formalized.

Naysar Parikh: On the vitrified were to ceramic ratio, want to understand the Dora conversion you said is completed. So, when does the sales would get start and secondly despite the Dora getting added, what is the reason for drop in vitrified in this quarter? May be Dora got added towards the end but still what was the reason for the drop in vitrified share?

Himanshu Jindal: Dora CAPEX went live like I said on the 28th of June. The plant was also under a bit of a shutdown which has also in a way impacted our sales in Quarter 1. So that has no correlation with whatever we did in terms of vitrified now. The vitrified capacity becomes available to us now in Quarter 2. Yes, there was a bit of a drop in vitrified like what Aditya mentioned in part of his opening speech also. We did not selectively pick up certain project orders where it was more like a commoditized, low value, low margin products, traded products. Largely Double Charge and Nano. So, this is where we let the business go in the interest of margins, in the interest of credit etc. This is why you are seeing, a slight drop, let me say in terms of the vitrified versus ceramics. Correct?

Naysar Parikh: Just last question. Even if we exclude the projects, even if there is a 4%-5% higher projects in Q4 which obviously still much larger decline for us versus industry even in the retail sales from Q4 to Q1. What would be the reason for that?

Aditya Gupta: Naysar, we have already answered that. We have just spoke about that. Just one thing. I will just go back to Kamlesh. Kamlesh, we got out the figure, it was 23.5% for Quarter 4, the project salience was 2.5% more in Quarter 4 versus Quarter 1.

Moderator: Thank you. As there are no further questions, we have reached the end of question-and-answer session. I would now like to hand the conference over to management for closing comments.

Himanshu Jindal: Thank you. I think you all have been patient and your support to OBL obviously counts. So, if there are any more questions, please feel free to come to any of us. The Pareto team is there, our people here are there and you can obviously approach Aditya or me anytime. Thank you so much.

Moderator: Thank you. On behalf of Orient Bell Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.