OBL:HO:SEC:00: New Delhi : 04.11.2024

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Stock Code - 530365

National Stock Exchange of India Ltd.
Exchange Plaza,
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Mumbai-400 051

Stock Code: ORIENTBELL

Sub: Transcript of Post Earnings Call for Q2 & H1FY25 held on 28th October, 2024

Dear Sir/Madam,

Pursuant to Regulation 30 read with Para A of Part A of Schedule III of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, please find enclosed transcript of Earnings Call held on 28th October, 2024 post announcement of unaudited financial results of the Company for the quarter and half year ended September 30, 2024.

The transcript of the Post Earnings Call Q2 H1FY25 is also available on company's website at www.orientbell.com under below path:

Investor Relations Section> Disclosures under Regulation 46 of SEBI (LODR) Regulations> Transcripts of Post Earnings/Quarterly Calls.

Kindly take the same on record.

Yours faithfully,
For Orient Bell Limited

YOGESH MENDIRATTA Digitally signed by YOGESH MENDIRATTA Date: 2024.11.04 13:24:44 +05'30'

Yogesh Mendiratta
Company Secretary & Head - Legal
Encl.: as above

"Orient Bell Limited
Q2 & H1FY25 Earnings Conference Call"

October 28, 2024

MANAGEMENT : MR. ADITYA GUPTA – CEO, ORIENT BELL LIMITED
MR. HIMANSHU JINDAL - CFO, ORIENT BELL LIMITED

MODERATOR : MR. SUYASH SAMANT – STELLAR IR ADVISORS

Moderator: Ladies and gentlemen, good day and welcome to the Orient Bell Limited Q2 & H1 FY'25 Earnings Conference Call.

As a reminder, all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Suyash Samant from Stellar Investor Relation Advisors. Thank you and over to you sir.

Suyash Samant: Thank you. Good evening everyone and thank you for joining us today. We have with us today, the Senior Management Team of Orient Bell Limited, Mr. Aditya Gupta – Chief Executive Officer, and Mr. Himanshu Jindal – Chief Financial Officer, who will represent the Company on the Earnings Call today.

The management will be sharing the key Operating and Financial Highlights for the Quarter and Half Year-Ended September 30, 2024, followed by a question-and-answer session.

Please note this call may contain some of the forward-looking statements which are completely based upon our beliefs, opinions, and expectations as of today. These statements are not a guarantee of our future performance and involve unforeseen risks and uncertainties. The Company also undertakes no obligation to update any forward-looking statement to reflect developments that occur after a statement is made.

I now hand over the conference to Mr. Aditya Gupta. Thank you and over to you, sir.

Aditya Gupta: Thank you. Good afternoon, ladies and gentlemen, and welcome to our Q2 & H1 FY'25 Earnings Call.

There is no material change to the domestic demand conditions in Q2. Exports have continued to remain impacted given the volatility of ocean freights. The monthly run rates moderated 1,000 to 1,200 crores versus 1,500 to 2,000 crores last year. This and the overcapacity in the industry, especially at Morbi, did have a consequential impact on pricing and volume buildup throughout H1. However, the good side is that now we are witnessing moderation in capacity additions, closure of capacities and also proactive steps from Morbi to curtail supplies to reduce the mismatch between demand and supply.

The changing landscape in the industry, the expected increase in tile consumption in H2 and our own efforts on branding and strengthening of our sales team structure should enable OBL to come back strongly here on.

Despite these near-term pressures, as far as Q2 and H1 are concerned, we were able to grow our revenues albeit in a pace slower than our expectations. H1 sales grew by 1.6% year-on-year to Rs.307 crores.

To drive premiumization and brand recall, we continue to invest on branding. Our spends increasing to 4.1% of our revenue primarily to support the TV campaign that we have been running for last 10-odd months consistently.

Our product mixes have changed rapidly in the last six months to match customer expectations with GVT salience improving to 40%, increasing by 14% over last year.

Our distribution too continues to expand as we have added a net 19 more OBTX in the last six months, taking the active count to 380. These OBTX now contribute 46% of our revenue versus 42% last year. Our costs have been under control and with the product mix change, our gross margins are back to normal.

With this, I request our CFO – Himanshu Jindal for the Financial and other Updates. Over to you, Himanshu.

Himanshu Jindal: Thank you, Aditya. Good afternoon. The first half was below expectations on revenue front given the overall demand/supply situation as Aditya mentioned.

We have been driving premiumization as a strategy for some time now given our increased investments on branding and CAPEX that has been put in play especially on GVT at Sikandrabad and Dora.

With the product mix improvement in the last six months, we were able to successfully navigate the price drops that were essential to recover our market share. The overall cost management also helped. We retained our strong focus on basics, which is consistently improving the consumption KPI and working on alternative cheaper procurement strategy, especially on raw material and power and fuel mixes.

On the figures now, #1, cost of production in first half was approximately 5.5% lower versus last year on a like-for-like basis, which is at constant product mix in energy costs. Our gross margins expanded. So, for Q2, we were at 35.7% versus 33% same time last year, which is a 2.7% improvement. EBITDA on a like-for-like basis too, which is excluding the impact of these increased investments that we are doing on branding consistently for the quarter was 6.2% again higher by 2.5% versus the last year. EBITDA on a reported basis though given our investments on branding was 5% versus 3.8% last year same time. Our balance sheet continues to remain healthy with a net debt of 35 crores and our core cash conversion cycles have been close to 33 in Q2.

With this, I would request the moderator to open the line for Q&A Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Miraj from Arihant Capital. Please go ahead.

Miraj: I am aware that the industry in the first half was weak, but I believe we are keeping that in mind, the numbers do look decent. Starting off with the question, sir, I wanted to understand if you could start with the volume figures for the quarter? I wasn't able to find them in the presentation.

Himanshu Jindal: So, Miraj I think as a strategy going forward, we would want to share this data points on an annual basis. I'll tell you the reasons thereof. One, see, we only sell tiles. The others are more diversified in terms of my peers. So, whatever you see in my top line is only tiles where the percentages increases or drops are very clearly transparently available. The second is you know about how the industry is reacting to prices. Everyone is working towards premiumization, changing portfolios, trying and doing more GVT. This is something which is helping us also. You saw that in our gross margins this quarter. So, I think with premiumization becoming a part of our strategy, with more and more money being spent on branding and CAPEX I think you get a picture of where the volumes could have been, and this is also a learning coming in from allied industries, you see paint, you see sanitary where there are multiple categories of products, everyone trying to do premiumization and volumes are not unfortunately available. The other reason why we thought we should hold on to volumes is also for strategic reasons. See, sharing too much in the public domain, unfortunately… see, we would love to do that, but sometimes it becomes counterproductive to our own interests. So, for those reasons, I think we are holding it on, not that you will not get it, year-end you will get the composite picture.

Miraj: In that case, sir, the ASP also you will not be sharing?

Himanshu Jindal: No. So, if I give ASP you get the volumes immediately. So, how I have played in the market in terms of ASP is something that I am trying to protect.

Miraj: Secondly, the 5.5 MSM from Proton, it has been mentioned that it started in Q2. So, for how many days was it available in Q2 or the production will start from Q3 only?

Himanshu Jindal: For all practical purposes, please assume Q3 coming in. So, this is just something which has started. They are in that phase of stabilization. It will take time. And eventually largely this capacity is meant for exports for which baby is already created, right, the Cestrum, the project baby that we worked on. So, whatever we do, ramp up should happen in the next half a year or one year.

Miraj: The next question was regarding that only. Sir, wanted to understand that for this entity that we created for exports, just as you mentioned that we will be exporting, whatever is being produced from Proton but besides that also we were planning to export our own production also. So, any progress on that?

Himanshu Jindal: Yes, we have already started doing that. The Company is already in existence now. You know that is as Cestrum. That's the wholly-owned subsidiary. And this Company has already started selling in a way. So, there is some shipments that we've already done, but more importantly, Miraj, you would know export markets in general have not done so well. The last three months, four months have been really bad. It's 1,000 to 1,200-odd crores. So, we need to be watchful. As and when there are opportunities, we will try and do more and more out of it.

Miraj: On the consolidated numbers, I see there's a loss from JV and associates. So, can you explain what happened over here?

Himanshu Jindal: So, two-fold reasons. See, there are two JVs that we operate or associate entities as I call them. One is Proton. I told you they have put in a new plant now. So, they have raised money, right, in their own balance sheet, which is not funded by OBL, which is not obviously consolidated at our ends also. So, there is the depreciation and the finance charge coming into play in that entity in this quarter when there is hardly any production. There are trial costs, etc., which have also been incurred. In the case of Corial again, some bit of it has to do, with the export markets not doing well. So, the volumes have not been enough in actually both the JVs because of export slowdown.

Moderator: The next question is from the line of Chaitanya Gandhi from RMB. Please go ahead.

Chaitanya Gandhi: I wanted to know how are the different geographies currently doing since we are doing very crazy marketing in South and West, how is the response?

Aditya Gupta: So, we are getting good response from South and West. I think there is a product profile change which is currently underway. I think we are adding distribution, we are adding some new OBTB which are showrooms. These are the areas which are very ceramic led for us and we are getting very good traction after the Dora project in terms of GVT sale in this area.

Chaitanya Gandhi: Any projections?

Aditya Gupta: No, we don't give projections at the Company level, let alone the regional level, but we are quite hopeful that these areas will contribute very nicely to our growth going forward.

Chaitanya Gandhi: I have one more question on Dora plant. How is it going, what capacity and all, how much are we utilizing currently?

Himanshu Jindal: See, the process is under ramp up as we speak. We are not obviously operating at optimum capacity. If you want to understand where the growth would come in from. See, what you should know, if you are tracking our Company, we did major expansions in Dora and in Hoskote almost simultaneously, both largely meant for South and West. The plants came at a time when the markets have been sluggish. The ramp-ups are not adequate at this point in time. We obviously need to do more and there is headroom for us to be able to do more and more there. So, the capacity utilizations are obviously not enough. We need to do much, much more.

Moderator: The next follow up question is from the line of Miraj from Arihant Capital. Please go ahead.

Miraj: Sir, on the earners front, I wanted to understand how are things looking from the project side, is there any change since the last quarter?

Aditya Gupta: We have seen an increasing number of new projects coming up, especially in the private side. And I think post monsoon this time Q2 monsoons were far more aggressive than what was expected. So, it kind of took a bit of toll on actual construction activity. Projects overall we are seeing good trajectory. I think H2 will be better both new projects for which demand we will be later but also existing projects where the construction activities are now going to pick up.

Miraj: Maybe if I wanted to understand from the existing project side where the orders would be coming in immediately instead of new projects which would take another at least two years from now, so let's say for any project that was started two years ago, have we started seeing enquiries on that front if I wanted to just gauge how quickly can we get the orders coming from this?

Aditya Gupta: So, Miraj, we have the older projects which are now ready for tiling, we are seeing increasing number of queries which we are not seeing in Q1 and Q2, it has slowly started picking up, and we are seeing bigger and bigger projects which are now asking around for tiles.

Miraj: Any particular region from where these orders are coming in or is it Pan India?

Aditya Gupta: I wouldn't have a regional split on this available, but I believe projects across, I believe hearing about them in north and I am hearing a bit of in the East, some in West also and South also. So, reasonably well spread out, Miraj.

Miraj: Because the reason I was asking was that revenue share is a bit larger from the northern region. So, I just wanted to understand if that is also the trend for project sales.

Aditya Gupta: So, I think we are hopeful to pick up some good projects in South and West in H2 also with the builders and all. Let's see how it goes.

Miraj: The last time we spoke it was mentioned that the ad spend that we are doing would probably run for the entire FY'25. Just wanted to understand that the ad spend will continue for FY'25 and beyond FY'25 have we made any thoughts on that we will continue to run the ads?

Aditya Gupta: It is continuing, the regional rates keep on changing, the properties on which we are advertising keeps changing, it's not just one flat line, which is like kind of constant month-on-month. As we speak, we are pretty clear that in Q3, we will keep investing in media, maybe with a slightly different strategy maybe or a different property. So, I think yes, actually we launched this campaign in December '23. So, I guess for 12 months, it is going to be alive at least and we will see for Q4 when we come to that. More than the campaign, I think the bigger story here is that this whole attempt to drive realization to get closer to the customer, to build a certain level of brand awareness is something which we are committed to. I'll just share a figure with you. I think in the last 9, 10 months since we started this campaign, our website traffic is up by about 70% or so. So, it's having a good impact. We just have to keep plugging away at it and we are committed to doing that. Quarter-on-quarter there will be some small adjustments here and there in the market, which TV channel you go to, what creators do you use and stuff like that.

Miraj: On the anti-static tiles that we have, how are things looking over there because I think that's a patented product now?

Aditya Gupta: It was not supposed to be a volume driver, Miraj. It was always supposed to be like one kind of tile which is say 2,000, 2,100 rupees per square meter, which helps us build differentiation in a very discerning different kind of a customer. So, we are happy with what it is, but it is not something which is dramatically going to change, it's not a big volume product.

Miraj: The reason I wanted to understand was that if patents is also one of the way forwards because we have certain patents where we've applied for. So, if that would also be a method to see driving volumes going ahead? That's not the case, right? That's what you explained?

Aditya Gupta: I didn't understand your question. What is the way forward?

Miraj: So, we have one patent which is of anti-static tiles, besides that also I believe there are certain patents pending which we've applied for. So, I wanted to understand this as you said that this is not more of a volume play. You are just entering into a higher price range. So, even for the other patents that we have applied for, that is also not for the volume play?

Aditya Gupta: See, it's like this, when you innovate, when you do R&D, when you kind of task your team to come up with something new, it's impossible to kind of straitjacket them and tell them that you only want this kind of a thing. So, what is good is that the manufacturing teams are coming out with a product, anti-static tile was one, anti viral anti bacterial tile is the other thing which we got a patent last year. So, the good thing is that stuff like this is happening. I don't know which one will like really catch the fancy of the customer and will become a big volume driver. But the bigger idea here is see it has a brand name and at some point of time in the future, I don't know when I think these things will help build customer preference and architect preference and professional buyers' preference for brand OBL.

Moderator: The next follow up question is from the line of Chaitanya Gandhi from RMB. Please go ahead.

Chaitanya Gandhi: So, I wanted to understand as we are increasing our ad spend quarter-on-quarter, so how long will this continue and what is the plan going ahead?

Aditya Gupta: It is not that we are increasing sequentially every quarter. Please note that. We took a call about almost a year back that we will move into mass media. Before December '23, we were focused on brand building largely to the digital media. And in December '23, we said that now we are good at that, we have a certain level we have reached, so we will start now leveraging mass media also. That is the journey we are continuing. As I said earlier, the exact quarter-on-quarter strategy in terms of creative, channel that we want to focus on, regions that we want to focus on and also the exact spend that we want to put on TV in that quarter will keep changing. But the more ratio what you can expect is that we will consistently keep investing in our brand with a mix of digital, mass media and on-ground activities.

Chaitanya Gandhi: So, as we have started opening experience center as in Pune as well, so how much are we going to increase that number, any number for that?

Aditya Gupta: So, we launched 51 in H1. We closed I think 31 or 32. So, net adds will be about 20-odd newer OBTB in H1, which is almost one new OBTB a week is what we have added in H1 broadly speaking.

Moderator: As there are no further questions, I would now like to hand the conference to Mr. Himanshu Jindal, Chief Financial Officer for closing comments.

Himanshu Jindal: Thank you so much for your patience and interest in OBL. Hopefully, with the tailwinds coming into play now with whatever we have been able to achieve in terms of our own working here at OBL, yes, there were challenges external and internal, I think we are coming out of it, hopefully we should see better quarters coming in. Happy Diwali to all of you. Thank you. Take care.

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