



HSIL Limited
Q3 FY2021 Results Conference Call

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ANALYST: **MR. MANISH MAHAWAR – ANTIQUE STOCK BROKING LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Q3 FY2021 Results Conference call of HSIL Limited hosted by Antique Stock Broking Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by entering "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Manish Mahawar from Antique Stock Broking Limited. Thank you and over to you Sir!

Manish Mahawar: Thank you. On behalf of Antique Stock Broking, I would like to welcome all the participants on the call of HSIL Limited. From the management, we have Mr. R.B. Kabra - President and CEO of Building Products Business, and Mr. Rajesh Khosla, President and CEO - AGI Glaspac and Garden Polymer, Mr. Om Prakash Pandey, CFO - HSIL and Mr. Sandeep Sikka, Group CFO on the call. Without taking further time, I would like to hand over the call to Mr. Kabra for opening remarks. Over to you Kabra Ji.

R.B. Kabra: Good afternoon everyone and welcome to the Q3 FY2021 results conference call of our company HSIL Limited. I would like to wish everyone a Happy New Year and hope you and your loved ones are staying safe and healthy.

This is the first time we are hosting this call, after demerger of the company's businesses with effect from 01st April, 2018. On this call, I will start by providing you a brief overview of the company, demerger, our outlook for the next phase of growth followed by results highlights. Then I would pass on the call to Mr. Khosla and Mr. OP Pandey to discuss the financial performance in more detail. We have already circulated our earnings presentation which is available on our website as well as stock exchanges website. I hope you all have had the opportunity to go through the presentation and we would be happy to take any questions afterwards.

Now about the Company HSIL Limited: HSIL, as you all know, has a long history of six decades marked with innovative products, excellence in manufacturing processes and customer centricity.

The group expanded rapidly across multiple business verticals with each of them having distinct capital requirements, nature of risks, competition and human skill set requirements, and so in FY2018 the Board of Directors of the Company took a conscious decision of demerger of the company by creating distinct entities for different business undertakings thereby ensuring sharper focus and better alignment of each to its customers. These companies were: (1) post demerger HSIL Limited now focuses on manufacturing and supply of Packaging Products and Building Products manufacturing. (2) Somany Home Innovation Limited focuses on marketing and distribution of Consumer Products and the Retail Division and (3) Brilloca Limited for marketing and distribution of the products of the Building Product Division.

The scheme of demerger resulted in dedicated and specialized management focus on respective businesses which will drive growth, improve competitiveness, and achieve cost and operational efficiencies.

Now, we, HSIL Limited, are a leading Packaging and Building Product manufacturing company in India. We have presence in two business verticals (1) Packaging Product Division, which comprises of Glass containers, PET bottles and products and Counterfeit resistant security caps and closures segments and (2) Building Products Manufacturing Division comprises of Sanitaryware, Faucets and Plastic pipes and fitting segments.

The Company has 11 state-of-the-art manufacturing plants and boasts of advanced and best in class technology and equipment for efficient manufacturing.

Mr. Rajesh Khosla will explain the various businesses verticals and other developments for the quarter. I now hand over the call to Mr. Rajesh Khosla.

Rajesh Khosla:

Good afternoon everybody. I am Rajesh Khosla and I would like to explain more about the Packaging Business. Packaging Business continues to be and will be the major growth driver for the company. We have three segments in the Packaging Business: Glass, Containers, PET Bottles and Counterfeit resistant security caps and closures and all three segments are witnessing a good traction in the market and there is a good demand in the market. We are preferred partners for the various industry we serve, beverages industry, pharmaceuticals, foods, and other packaging industry. We are the second largest glass container manufacturer in India, and we are operating right now 2 plants situated in Telangana. We have expanded our capacity from 150 tonnes long back to 1,600 tonnes per day over the last 25 years.

HSIL growth dynamics are fully aligned with the fundamental underlying growth profile of its customers and there are multiple growth drivers for the packaging industry today. There is a growing consumption of spirits, beer, and many other beverages resulting in the increased demand of the glass bottles and glass containers. Users of glass packaging in food and beverage industry are increasing and catching up with the western world from time to time. Institutional clients as well as the end customers are preferring product security, a demand addressed by counterfeit-resistant products.

The Company is constantly transforming itself and we are expanding our presence by exploring new local and export markets, introducing innovative products, widening geographical reach, and diversifying revenue streams. At the same time, we are committed to adopting and investing in environment friendly technology and sustainability forms a core pillar of our growth strategy. The various initiatives undertaken by us on Green Building Design, Renewable Energy, Waste treatment and others have been highlighted in our presentation. These not only reduce our

environment footprint, but also helps in attracting and engaging with ESG conscious institution clients, cost saving and increased efficiency and productivity.

Now moving to our performance during the quarter. In Q3 FY2021, we saw beginning of normalization of the overall economic and business environment after a challenging first half of the year due to the onset of health pandemic COVID-19. In Q3, we continued to deliver both sequential and year-on-year improvement in key financial and operational performance indicators for the company. Our total income for the quarter was Rs. 548 crore, registering a growth of 10.8% on year-on-year basis and 24.7% on quarter-on-quarter basis driven by improved average realization and strong recovery in volumes underpinned by robust demand from the alcoholic beverage industry. We, at HSIL, are proud of the resilience and perseverance demonstrated by the HSIL team during these challenging times.

In conclusion, I want to highlight that our state-of-the-art manufacturing processes supported by the growing client's industries and differentiated product mix will fuel the next phase of our growth. We look forward to exciting times ahead for the Company.

I would now like to hand over the call to our CFO, Mr. OP Pandey to discuss the results in detail. Thank you very much.

Om Prakash Pandey:

Thank you, Mr. Rajesh Khosla. A very good afternoon to all the attendees. I will quickly go through the financial highlights of the quarter.

In Q3 FY2021, our total income stood at Rs. 548 crore compared to Rs. 494 crore last year, a growth of 10.8% on year-on-year basis. The revenue growth was supported by improved average realization and recovery in volumes. Revenue from operations of Packaging Products was Rs. 361 crore, a growth of 15.2% on year-on-year basis and during the quarter 46 new products were developed, and 13 new products were commercialized. Revenue from operations of Building Products reported was Rs. 179 crore a growth of 29.8% on year-on-year basis.

EBITDA for the period was Rs. 101 crore with EBITDA margin improving to 18.4% as compared to 15% in Q3 FY2020. The margin improvement was driven by improved capacity utilization levels coupled with optimized sourcing of key raw materials.

EBIT for the period was Rs. 70 crore with EBIT margin of 12.7% as compared to 8.5% in Q3 FY2020. In the Packaging Products, EBIT margin improved to 17.6% in Q3 FY2021 from 14.2% in Q3 FY2020.

PAT was Rs.36 crore with PAT margin of 6.6% in Q3 FY2021 as compared to 3.2% in Q3 FY2020 and adjusted PAT margin was 5% in Q2 FY2021. It should be noted that in Q2 FY2021 there was income tax write-back of Rs. 14.7 crore, which resulted in higher reported profit after tax during that period.

During the quarter we have also completed the Buyback of 75.9 lakhs shares for an amount aggregating to Rs. 63.9 crore. We have currently utilized 91.32% of the maximum buyback size excluding the transaction cost, as per the regulatory provisions.

We continue to make investments in avenues likely to drive our future growth. Our capacity utilization remains high across manufacturing plants and to expand our capacities, we have outlined Rs. 320 crore for two manufacturing facilities.

Project one, with capital outlay of Rs. 220 crore for manufacturing specialty glass at greenfield facility in Bhongir, which will have a capacity of 150 tonnes per day. The products manufactured will focus on exports to US, Australia, and European countries.

Project two, with capacity outlay of Rs. 100 crore to increase production capacity from 30,000 TPA to 48,000 TPA for Plastic pipes and fitting business at Sangareddy plant. Both the projects are expected to be completed by September 2022.

Thank you very much. We are now ready to take any questions.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Ronak Vora from AUM Fund Advisors. Please go ahead.

Ronak Vora: It is a good set of numbers for the quarter. I just wanted to ask you, currently in the Building Products Division that we have, are we only going to be manufacturing over here and then the distribution and branding would be done by Somany Home Innovations?

Sandeep Sikka: As part of the demerger exercise, the entire Building Products Business has moved from HSIL to Somany Home Innovation and its wholly owned subsidiary Brilloca and HSIL today has only manufacturing plants relating to sanitaryware, faucets and the pipes. All the products, which get manufactured in sanitaryware, faucets and pipe here, are transferred to Brilloca and the transfer pricing arrangement is approved by the board and the shareholders and underlying benchmarking has been done by one of the big four firm and this benchmarking has also considered the industry market trends. So going forward if you see HSIL, major chunk of business will be the packaging business, as far as the overall growth is concerned, and Building Products Division, we call it now Building Products Manufacturing Division will be focusing on manufacturing similar to an OEM for the third party.

Ronak Vora: So, in Somany Home Innovations there will be no manufacturing that will ever be done, is it correct?

Sandeep Sikka: That company is a different company. As we are geared for a call of HSIL, so, we will take questions only for HSIL and not Somany Homes Innovation.

- Ronak Vora:** On the Packaging Division, what kind of growth do you see in FY2022?
- Rajesh Khosla:** The growth in the packaging industry is directly proportional to the growth in the economy which we are going to see and we hope that on a conservative side, it will be something around 10% to 11% and on an upper side it can go up to even 15%, because the way the projection has come from IMF two days back where India is supposed to grow at 11.5%. So we can expect on upward trend of 15% also if everything goes well with the numbers which has been projected by IMF, otherwise, on the lower side it can be ~10%.
- Moderator:** Thank you very much. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Sir, just wanted to understand the sustainability of the margins that we have done this quarter of about 17%. Any kind of comments on that would be helpful?
- Rajesh Khosla:** If we look at the sustainability of margins which has come in Q3, they have basically come from the fundamentals of the business rather than from any onetime issue or onetime advantage we have got. So, these are practically from the fundamental point of view. Though, still the economy has not opened yet fully, we have been able to recover only because we have been supplying to all these glass packaging industries and we have got growth from there. In the times to come, after the COVID period, where we expect that the people will be more inclined towards the hygiene, people will be more inclined towards the packaging, of particularly food products, and we are also trying to go in countries where everything is packed and processed food industry is going to go up. So, the type of growth you have seen, it will be maintained and it will be sustainable.
- Deepak Poddar:** Even the growth we are talking about, is it kind of maintainable, because we have seen a decent growth of about 15% this quarter YOY. So, is this ~Rs. 540 crore as a topline can be taken as a base?
- Rajesh Khosla:** I can say from my company point of view, so there are two types of growth which are there, one is from a demand side of growth which is basically the market growth. So on that part there are no issue at all, there will be a growth of say 9%, 10%, which I just answered before. And if you are talking from a supply side of growth, like how much we can deliver to that market, Yes, there is some capacity and right now we are running with a capacity close to around 85%, so there is still a gap of 15% and we can grow 15% easily at any point of time, once the markets start absorbing. And after that we have our plans to grow from infrastructure point of view, from the capex point of view also. So that will take care of the growth in the future, but yes, 10% to 15% growth should not be a problem if economy and everything goes well.
- Moderator:** Thank you very much. The next question is from the line of Rakshit Sethi from Fair Value Capital. Please go ahead.

- Rakshit Sethi:** Good afternoon gentlemen and a good set of numbers. Just a couple of questions; firstly, with the glass packaging business, you just mentioned about the plans for further capex. Could you just give a little more detail on what sort of capex for glass packaging we can look at over the next 12 to 18 months?
- Rajesh Khosla:** The one capex which we have just started is 150 tonnes per day of the furnace, which is cosmetic and perfumery and clear glass furnace and is under implementation. That is going to give us the edge at the high end of the markets and we are going to grow on that. Besides that there are other debottlenecking and all, which are continuous process and it will carry on.
- Rakshit Sethi:** Do you have any presence in the vials section of the market?
- Sandeep Sikka:** I think your underlying question is whether our vials are supplied to the COVID vaccine or not, am I right?
- Rakshit Sethi:** Correct.
- Rajesh Khosla:** No. We are producing the vials but the vials which are used in the COVID vaccine are tubular vials inside one type of glass, so we are not manufacturers of this type of glass and this type of tubular vials. But yes, we do produce the vials and it goes to the vaccine manufacturing for other type of pharmaceutical products, but not for the COVID-19 vaccine.
- Rakshit Sethi:** Does Piramal Glass produce these kinds of vials?
- Rajesh Khosla:** No. Piramal Glass produce type-1 of vials, but they are not producing tubular vials. There are two types of vials - modular vials and tubular vials and the COVID-19 vaccine goes for tubular vials. So, though they are in type-1 glass, but they are not into tubular vials.
- Rakshit Sethi:** And we are not in type-1 either?
- Rajesh Khosla:** No. Right now we are not in type-1.
- Rakshit Sethi:** Any plans to enter that market or not?
- Rajesh Khosla:** Since we are in the glass business, we always look at all possible potentials in the market. So at this stage opening up a strategy of the company saying we are entering is very difficult to say but we are always looking ahead with all types of possibilities in any type of glass business and glass packaging business, today and even in the future. And we are just moving in the upper ladder where we are going to enter into cosmetics, perfumery, high end clear glass, so that is certainly going to be there in the next few months and you are going to see us there.

- Rakshit Sethi:** When do we expect that to come on stream?
- Rajesh Khosla:** We expect that in the next year, which I can say around June 2022, we should be operational.
- Rakshit Sethi:** Now for the Building Product side of our business, could you just give us a little more detail on what kind of capacity utilizations we are currently at for various segments, for example PVC, CPVC or other products and what are our current estimates of capex for all of these subsegments in the Building Products?
- R.B. Kabra:** The capacity utilization for sanitaryware plants is around 85%, we have two plants, one in Bahadurgarh in Haryana near Delhi and one plant in Bibinagar near Hyderabad in Telangana. For both plants put together, in Q3 the capacity utilization is around 85%. For the faucet plant, which is in Kaharani, Bhiwadi, Rajasthan the capacity utilization is around 65% because last year we enhanced capacity from 2.4 million pieces per annum to 3.6 million pieces per annum. So, this was in Q3 for sanitaryware and faucets. For pipes, the capacity utilization was around 82% in Q3.
- When you talk of capacity enhancement in sanitaryware, we would be investing around Rs. 35 crore going forward in the next 18 months for putting up two furnaces, one at each plant and also enhancing the casting capacity. This is over and above the maintenance capex, which are around Rs. 5 to 6 Crores, which happens in both the plants. In Faucet plant, there will not be much capex because we expanded capacity only last year and the enhanced capacity is available. For pipes, Mr. Sikka you can tell the plants what we have.
- Sandeep Sikka:** For Pipes overall, we have reached a capacity of 30,000 tonnes and as we are continuing investing, now we have been able to debottleneck some capacity. Right now we are operating at around 36,000 tonnes, capacity per annum and the capacity utilization during the Q3 was in excess of 80%. So, as we move forward, we feel that we should be short of the capacity in the pipe side and that is why the Board of the Company in the last Board meeting had approved capital expenditure plan of Rs. 100 crore for further enhancing the pipe capacity which will be helping us to take us to, by middle of next financial year, a capacity of around 48,000 tonnes.
- Rakshit Sethi:** When do we expect this capacity to come on stream, within the next two years?
- Sandeep Sikka:** It is somewhere between June to September 2022.
- Rakshit Sethi:** That is very helpful. Just one last question from my end, when you put all of this together and when I look at the debt, I think it has increased from last financial year. What is the level of debt on the book that we are comfortable with? And where can we expect the debt position on the books to be, say end of FY2022?

Sandeep Sikka:

For FY2022, if you see this year we have a debt repayment of about Rs. 52 crore and next year the repayment is another Rs. 85 crore to Rs. 90 crore, but with all the capex which we are doing, our strategy has been that we do not utilize short-term money for long-term funds. So, we will take long-term debts but any incremental profits, you can see in Q3 we earned almost Rs. 100.7 crore of EBITDA, so all this will now start contributing towards the cash flows and this cash flow will be utilized in the first stage towards payment of short-term debt and ultimately we will have a comfortable cash situation. So, when you see our debt on a long-term basis, you also have to see the surpluses which are there. On a net debt basis, we feel that by March 2022, at one time debt may increase by another Rs. 150 crore to Rs. 200 crore because of the capex which we are doing on the glass side and also the capex which we are doing on the pipe side, but it will lead to an incremental EBITDA which will subsequently bring down the debt substantially.

Rakshit Sethi:

Currently at what costs are we raising both short-term and long-term?

Sandeep Sikka:

Our weighted average cost is around 6.5% and this includes some mix of a long-term and short-term. Short-term funds are slightly cheaper and long-term funds comes to us around 7.75% to 8%.

Moderator:

Thank you very much. The next question is from the line of Zaki Nasser, an individual investor. Please go ahead.

Zaki Nasser:

Good afternoon and congratulations on a good set of numbers. My question also would be on the debt part. It is around Rs. 900 crore and for a company of our size that looks slightly bloated. So, in the next three years, what would your assessment be on the level of debt Sir? That is my question number one. Question number two relates to the Building Product Division whereby you have segregated the brand into Brilloca and let the manufacturing be in HSIL. Do not you think that is a slightly complex arrangement and it could have made simpler?

Sandeep Sikka:

I will answer the first question first and then take on the second question. If you see historically, this packaging business is a capital-intensive business. This business historically used to have lower return on capital employed, but with all the efficiencies, with all the investments which we have made in terms of additional value creation into the business, we have been able to demonstrate that we are in a different league in terms of efficiency, customer service and quality and all the figures are actually resulting into a very high level of EBITDA and EBITDA margins. Nowhere in the industry in the glass packaging side, you will see this sort of numbers and it is not only now for this quarter, if you track us for the last seven, eight quarters, you know, we have been above the industry, but given the complexity of this industry, it requires some capital investments.

But good part is that since our margins are coming up, you will see a lot of debt payment happening over the next two, three years and our strategy, I have been talking

about it, that we did take long dated debts, so that cash flow comfort is there in the organization. So, over that next three years, we feel we will pay off the debt of around Rs. 300 crore to Rs. 450 crore, which is a normal repayment for the old debt, and we may contract a similar level of debt for the future capexes. So, more or less the debt level should remain same other than March 2022 as you know, March 2022, will be one exception wherein the debt will increase. By March 2023, we feel that the debt level should stabilize around Rs. 1,000 crore, but with the incremental EBITDAs. If I just try to extrapolate, we almost had Rs. 101 crore of EBITDA and as we just said, if annualized, we are on a run rate of around Rs. 400 crore EBITDA, which should ideally grow by around 20%, 25% with all the capital expenditure being done. I am giving a long-term guidance, I am not giving a quarterly guidance here, please note. This should lead to a substantial debt repayment in the next three years.

Coming to your question of Building Products, the demerger was the necessary call. Actually when we were meeting various analysts and investors at that particular time, the question was why the glass business is there, why the company does not sell out, so we have now created this vertical which is an excellence of manufacturing vertical. That is our theme and that is what we have been trying to communicate to that market. So, this vertical will excel in the manufacturing and we will demonstrate it both to our customers and all the stakeholders that how we can create value out of it and outsourcing for any of the consumer products in building materials is now a norm. Like even in the other company like Brilloca and SHIL, SHIL does not manufacture anything and everything is outsourced. In Brilloca also we used to import a lot of sanitaryware and we used to outsource a lot of faucets. So, we have a transparent mechanism, we are communicating that mechanism to everybody so that everybody understands the rationality of the entire transaction and also the business profile.

Zaki Nasser: Suppose HSIL gets the manufacturing from some other branded company, so you would consider doing that in HSIL?

Sandeep Sikka: HSIL is independent of other company.

Zaki Nasser: Suppose HSIL gets some maybe some foreign clients come and tells you to manufacture organically for them. So HSIL can do that, right?

Sandeep Sikka: Yes. HSIL is free to do that, provided that it should not sell any of the designs or any of the brands which the other company owns.

Zaki Nasser: Sir, you have introduced your consumer products, like glass bottles and others like that which are on shop shelves, and most of these if you still see, are imported. So, how is the response for this been, because it has been a fantastic initiative from the company, how is the response for this and how do you look at that segment?

Rajesh Khosla: We have developed a new brand which is called Greendrop. Greendrop is a brand which we are trying to market for our retail segment. The retail segment as compared

to our normal business will be small, but it should be very highly profitable business. Right now, we have just started with online sales and you can see our products on Amazon, Flipkart and so many more online platforms, besides that we are trying to work out with our modern trade business, other channels, retailers, and all these. So, this type of network expansion in the next few months we are going to see in a big way because this all concept has started almost a year back, so things are shaping up, the manpower restructuring is getting in place, and we expect a big revenue. So we are not going to stop it geographically only in India, it will be replicated and multiplied in the other countries, wherever there is no such competition and there is a good platform to the growth, in Hong Kong, Singapore, and other western countries, for example in Singapore there is no glass industry. We are going to integrate with these design platform also in the times to come and introduce many more things in that.

Moderator: Thank you. The next question is from the line of Aditya Shah from Value Capital One. Please go ahead.

Aditya Shah: Can you please help with the capacity utilization in Building Products in Q2?

Sandeep Sikka: Q2 was slightly lower as a few of our furnaces were down. Mr. Kabra would you like to answer that question.

R.B. Kabra: Q2 capacity utilization was around 55% for both plant put together, because the Bahadurgarh plant started in the beginning of June, but the Bibinagar plant was started sometime by end of August only. So the Bahadurgarh plant ran around 70% whereas the Bibinagar plant ran only for one and a half months properly. So, the capacity utilization was around 50% to 55%.

Sandeep Sikka: The pipe has been running around 80%. Pipe was doing good in the quarter.

Aditya Shah: And faucets?

R.B. Kabra: Faucet was again around 70%.

Moderator: Thank you. The next question is from the line of Anuj Sehgal from Manas Asian Equities Value Fund. Please go ahead.

Anuj Sehgal: I wanted to check for the Building Products Division, the growth is almost 30% so what has driven that year-on-year? So what has driven that strong growth if you could elaborate between sanitaryware, faucets and pipes? Is that also the kind of growth that you would say you are seeing at the retail level?

Sandeep Sikka: To answer this question, I would like to say that we are constrained by a contract with the other company to whom we supply, to give away the exact segment by segment number, but I can give you a broad guidance that to a large extent the growth has come on a year-on-year basis linked to the growth of the pipe business, which has happened

due to the new plant. It was ramping up the capacity, so the ramp up has taken very fast, but I cannot take a question here in this call relating to other than HSIL.

Moderator: Thank you. The next question is from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.

Karan Bhatelia: Sir, what is the current capacity for our sanitaryware unit?

R.B. Kabra: The current capacity for sanitaryware is around 4 million pieces per annum.

Karan Bhatelia: Sir, could you broadly give some colour as to how much of this could be premium or mass market or mid range, if you can throw some light on it.

R.B. Kabra: In manufacturing there is no constraint. There are no separate lines for manufacturing premium products or manufacturing the middle end products. The same lines are used, only the moulds which are used for making those products have a different design and these can be changed anytime when we require, except that we have to use the life of the mould. Once we do that, our capacity is very flexible. We can produce whatever we want to.

Karan Bhatelia: Sir, can't you throw some numbers as to, for example 50% is for premium or mass market or so on?

Sandeep Sikka: Let me provide you a brief background, this company is not selling to the markets. So it is the other company which sells to the market. So this company is a pure contract manufacturer for that company. So, as far as the pure manufacturing is concerned, these figures are not available as such.

Karan Bhatelia: In terms of our plastic pipe business, can you throw some light on capacity, are we into all product ranges, DWC, PVC, CPVC, drainage systems?

Sandeep Sikka: Yes, we are there in CPVC, UPVC, we do SWR pipes also, we started with column pipes also. So, the mix of CPVC production to overall is, we do around 40% CPVC and 60% other products.

Moderator: Thank you. The next question is from the line of Amit Zade from Antique Stock Broking. Please go ahead.

Amit Zade: Sir, on your Building Product Segment, just wanted to understand if you can give some colour on say margin outlook on a sustainable basis and what kind of arrangements if they have some inventory gains or losses. So, what kind of pass-through arrangements we have with the other company?

Sandeep Sikka: Basically, there is a price mark up mechanism, which has been approved by Deloitte and Deloitte was appointed by the company to see what the fair level of benchmark is. Now as we move forward as a pure manufacturing company, HSIL has to excel and

whatever, on a long-term basis, the saving which comes in, it will be negotiated between Brilloca and HSIL, but given the fact that in this quarter we had 5.4% EBIT margins and this company does not have a brand or distribution, as it is a pure manufacturing company, overhead costs are also low in terms of that selling into the market. So, we feel that on a long-term basis, maybe the guidance of 12 to 18 months is that the margins will remain in this level only and we will keep seeing how we bring efficiencies into the system and enhance the margins.

Moderator: Thank you. The next question is from the line of Amit Kochar, an individual investor. Please go ahead.

Amit Kochar: Are we entitled to any kind of benefits for the new glass unit coming up whether from centre or from the states?

Sandeep Sikka: All the investments, which the company has made over the last four, five years, we did it under the mega project, let it be the investment into the pipes project or let it be the investment into the security caps and closures. But when we are giving these results, we have not accounted for those benefits into our books as in yet, because as a matter of a prudent policy, until and unless there is a reasonable certainty of getting those money from the state government or the central government, we do not account it. So that is something additional which will come forth on receipt basis, we will account for that.

Amit Kochar: Could you quantify a bit, like approximately how much as % of the capex part the benefits are from the state level policy or the centre level policy, for example they pass on some GST and other benefits, we could get over a period of time, maybe in three to five years?

Sandeep Sikka: I will give you the broad policy guidelines. They give us some subsidy on the power which we consume and Rs. 1.50 subsidy which they give us on the power, and we are also entitled to GST refunds for the sales which are local sales, but there are certain conditions, which are attached to those claims. We have filed certain claims, I cannot disclose the value of those claims because that is quite sensitive. But what I am giving you a guideline here is that based on the reasonable certainty, until unless state government confirm to us that we are releasing this money to you, so we do not account it in the books.

Amit Kochar: That is true. Second question is regarding the current import scenario in the industry which we are working right now. As we see that the central government is considering many bans, many import duties on many of the import oriented products, so are we expecting any kind of contract manufacturing benefit and what is the current scenario of imports from other countries mainly from China?

Sandeep Sikka: I think manufacturing sector is taking a boom and going forward if somebody is doing core manufacturing, and with an efficiency, it will gain over a period of time and that is

what we are also trying to communicate, that as far as the Building Products Business, which is technically OEM business today, our endeavor is to bring efficiencies into the system for the margin enhancement going forward.

Amit Kochar: Sir current scenario on the imports. Are the imports currently being restricted by the government or are they done freely?

Rajesh Khosla: No there is no restriction on glass bottle as well as sanitaryware and faucets.

Sandeep Sikka: I see most of the questions have been taken off, if any participants missed to ask question, alternatively you can write back to us and we will be very happy to respond. Churchgate Partner is our Investor Relations Agency, we have taken their help in terms of the overall investor relations. You may also write to them.

Moderator: I will now hand over the conference over to Mr. Manish Mahawar for closing comments.

Manish Mahawar: On behalf of Antique Stock Broking, I would like to thank the team of HSIL Limited for providing us an opportunity to host the call. Kabra Ji would you like to make any closing comments.

R.B. Kabra: Thank you everyone for sparing time on a busy day for attending our call. I am happy to see the participation on the call, though we came on such call after a long time, because the demerger process was going on and we were in the process of stabilizing the demerged businesses. As Mr. Sikka said, you can write to us with your queries, directly or through the IR advisors. Thank you for your time, once again.

Moderator: Thank you very much. On behalf of Antique Stock Broking Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

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