“HSIL Limited
Q4 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to HSIL Limited (HSIL) Q4 FY2021 earnings call, hosted by Antique Stock Broking. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Zade from Antique Stock Broking Limited. Thank you and over to you Sir!

Amit Zade: Good afternoon everyone. On behalf of Antique Stock Broking, I would like to welcome all the participants on the earnings call of HSIL Limited. From the management, we have with us Mr. R.B. Kabra - President and CEO of Building Products, Mr. Rajesh Khosla, President and CEO - AGI Glaspac and Garden Polymer, Mr. Om Prakash Pandey, CFO - HSIL and Mr. Sandeep Sikka, Group CFO. Without further delay, I would like to hand over the call to Mr. Kabra for the opening remarks. Over to you Sir!

R.B. Kabra: Thank You Amit, Good evening everyone and I welcome you all to the Q4 and FY2021 results conference call of our company HSIL Limited. I hope you and your family members, and all loved ones are staying safe during this second wave of this pandemic, which is very, very infectious and I pray for well being of everyone. We have already circulated our earnings presentation which is available on our website as well as on the stock exchange website. I hope you all have had the opportunity to go through the presentation and we would be happy to take any questions afterwards.

I am pleased to report that HSIL has closed the fiscal year on a strong note. The company delivered a total income of Rs.638 crore in Q4 registering a growth of 36.3% on Y-o-Y basis. Revenue growth during the quarter was primarily driven by improved volumes, realizations and better product mix. The volume growth was supported by the increasing demand for glass containers packaging from the beer, food and the beverage industry.

The company delivered EBITDA of Rs.102 crore in Q4 registering a robust growth of 65.5% on year-on-year basis with a margin improving to 15.9%. Margin improvements were driven by better product mix and high operational efficiencies. Despite the first quarter being impacted due to pandemic, we maintained growth momentum in the subsequent quarters and managed to close the financial year without de-growth in revenue thereby recovering revenue loss during lockdown. However, continuous focus on process and cost optimization has allowed HSIL to deliver growth and profitability.

In terms of our business segment, I will quickly talk about Building Product Division and thereafter Mr. Rajesh Khosla will talk about the Packaging Product Division. In Building Products, we are seeing a reasonable demand for products with a gradual opening of the economy, and we continue to move forward with our focus on introducing automation in business processes, reducing wastages and increasing overall efficiencies.

Now I hand over the call to Mr. Rajesh Khosla for his remarks.

Rajesh Khosla: Thank you very much Mr. Kabra. Welcome to the HSIL team and firstly, I wish you a very safe and healthy new year ahead. The segment of Packaging Products continued to be our major growth driver and during the quarter, we saw a strong year-on-year growth in revenues, in all the sub segments led by the Glass Containers Business which contributes almost 88% to the division revenue. Glass Container plant capacity utilisation increased to 85% as compared to the 79% in the same quarter last year. Technological upgradation is another key focus area where we have purchased three high technology narrow neck press and blow machines which have advanced control systems, and they are in much of the demand in the industry. Our customers have highlighted that they prefer NNPB bottles, rather than the conventional blow and blow bottles, which are lighter, and these will address the demand specified specially by the beer industry and other alike industries.

Important aspect that I would like to highlight is, our plants are capable to operate with alternative fuel and management conscious decision to use the best available fuel has allowed HSIL to consistently improve and maintain its margin profile though there was a huge fluctuation on the fuel side of the business.

Now, I would like to hand over the call to our CFO, Mr. O.P Pandey to discuss the financial results. Thank you once again and Mr. Pandey, please take over and go ahead with that.

Om Prakash Pandey: Thank you, Mr. Khosla. A very good afternoon to all the attendees. I will first present financial highlights for the quarter and will discuss the full year after that.

In Q4 FY21, our total income stood at Rs638 crore compared to Rs.468 crore in last year, a growth of 36.3% on Y-o-Y basis. The revenue growth was supported by improved volumes, realizations, and better product mix. Revenue from the Operations of Packaging Products was Rs.418 crore, registering a growth of 31.5% on Y-o-Y basis. Revenue from Operations of Building Products reported was Rs.216 crore registering a growth of 59.7% on year-on-year Y-o-Y basis.

EBITDA for the quarter was Rs.102 crore with EBITDA margins improving to 15.9% as compared to 13.1% in Q4 FY20. The margin improvement was driven by better product mix and higher operational efficiencies resulting in lower fuel/power and other costs.

EBIT for the period was Rs.72 crore with EBIT margins of 11.2% as compared to 5.6% in Q4 FY20.

PAT was Rs.33 crore with PAT margins of 5.2% in Q4 FY21 as compared to 0.7% in Q4 FY20. Please note that profitability in Q4 FY20 was subdued as pandemic onset began during that period.

Moving to full years results -

In FY21, Total Income stood at Rs.1,881 crore compared to Rs.1,879 crore last year, a stable figure despite Q1 adversely impacted by COVID-19 nationwide lockdown.

EBITDA for the full year was Rs.308 crore with EBITDA margins improving to 16.4% as compared to 15.5% in FY20. Adjusted PAT was Rs.73 crore with margin of 3.9% in FY21 as compared to 2.6% in FY20. Reported PAT figure for FY21 is higher due to income tax writebacks of Rs. 14.7 crore.

HSIL continues to generate a strong net cash flow from the operations of Rs.298 crore in FY21 registering a growth of 179% on Y-o-Y basis. Please note that this is excluding a one-time income tax refund of Rs.51 crore.

In FY21, our capex outlay was Rs. 170 crore which was primarily incurred for technological advancement, de-bottlenecking, operational efficiencies, and our Greenfield projects. In light of the company's performance, the Board of Directors has recommended a dividend of Rs.4 per share for FY21 subject to approval from the shareholders. This will be equivalent to a payout of 200% on face value.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wish to ask a question may press "*" and "1" on touchtone telephone. If you wish to remove your cell from question queue you may press "*" and "2". Participant are requesting to use the handsets while asking question. Ladies and Gentlemen we will wait for a moment while question queue is assembles The first question is from the line of Kaushik Poddar from KB Capital Market. Please go ahead.

Kaushik Poddar: The building products profitability, why has it suffered compared to the packaging products?

Sandeep Sikka: If you see, building products profitability primarily consists of B2B business, as in HSIL Building Product Division only manufactures, which does not have a brand it is present in manufacturing and is like an OEM contractor. If you see Q4, margins are good but during the year, when we had a lockdown, there was fixed cost relating to the factories and as per accounting standard, we could not pass it on or load to the value of the inventories, so it was retained in the HSIL. It primarily resulted in the lower annual margin but Quarterly margins are in line with what has been approved by the independent consultant who benchmarks all the related party transactions for us.

Kaushik Poddar: Okay, so that means we can only expect a 3% EBIT for building products?

Sandeep Sikka: Yes, 3% to 5% or 3% to 4.5% in the range, as recommended by one of the big four consultants for related party transaction, on EBIT level.

Kaushik Poddar: What will take the 3% or 4.5% because last quarter was more or less a normal quarter, right?

Sandeep Sikka: So, why I am saying range of 3% to 4.5% as for different products, there is a different range.

Kaushik Poddar: Okay and what are the expansion thing that CPVC pipe project that we are putting up, that is already part of that building products or it is a separate thing altogether?

Sandeep Sikka: It is a part of the building product. Right now, we have a capacity to produce from 35,000 to 38,000 tonnes and why I am saying 35,000 to 38,000. It depends on what diameter the pipes are being produced. We are putting up a capacity in which we are investing into Pipes facility so that we can generate more 10,000 tonne capacity in the systems. This should be up running. Another Capex is putting up 154 tonnes high end glass furnace which is the clear glass furnace. Our focus there is to tap perfumery market, the nail polish market, and the part of the pharma market also, our investment there is somewhere around Rs.250 Crores.

Kaushik Poddar: So, what is the total capital investment you are looking for?

Sandeep Sikka: Apart from this, there are normal capexes also which has spread out, but I think our estimate is based on current situation in 2021-2022 and the total spend should be somewhere between Rs.250 crore to Rs.300 Crores of capex in financial year.

Kaushik Poddar: Is that the final thing or you have more to spend in 2022-2023 also?

Sandeep Sikka: So, that depends on how the things come out during the year.

Kaushik Poddar: Okay, will this project be coming into operation in 2021-2022?

Sandeep Sikka: They are likely to come up only in Q1 of next financial year.

Kaushik Poddar: Okay and how are you funding this because internal accruals cannot be sufficient?

Sandeep Sikka: If you see our total long-term debt today is around Rs.740 crore to Rs.745 crore and if you see Q4, EBITDA is around Rs.100 crore. On an annualized run rate we are around Rs.400 crore as a base. We cannot take Q1 as in Q1, we had a loss during the COVID. We have an adequate amount of leveraging and all the repayments falling due this year is somewhere around Rs.85 crore to Rs.90 crore. We will raise on a certain debt -equity, the long-term debt and also use part internal accruals also to fund the growth.

Kaushik Poddar: As far as this company is concerned, the main profitability will come from the packaging products, right?

Sandeep Sikka: Yes.

Kaushik Poddar: That trend is not going to change over the year.

Sandeep Sikka: No, we have given this as a part of our investor presentation also.

Kaushik Poddar: Thank you.

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

Aditya Jhawar: I just want to understand two things, one is margin what we have achieved in Packaging Segment that is 14.5% to 15%, is it sustainable over three to four years?

Sandeep Sikka: I can give you broader guidance. Nobody can predict the market but based on the current market conditions as on today, we feel that these margins are sustainable. In fact as I told you we are investing into newer furnace which is 154 ton furnace which we feel that will give us better margins, better realization because we are trying to tap the high end of the market there, so we are trying to work on product mix. We are trying to work on tapping the high end of the market, so investment is going towards that and we feel that margin expansion should happen over next two to three years in a range of around 250 bps.

Aditya Jhawar: Okay and regarding the Building Project Segment, I see a very less EBITDA margin?

Sandeep Sikka: I have already explained as a part one of the call that was the first question.

Aditya Jhawar: Thanks. That is all.

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

Lucky Nasir: First of all, congrats on a decent set of numbers for the last quarter. During the last concall, you had mentioned that your broad outlook for the current year would be EBITDA of Rs.100 crore per quarter, so would that continue and hold, considering that your topline has expanded considerably. The second part of my question is HSIL has arrangement with Somany Home Innovation Limited (SHIL) for the building product, does that mean that we can also manufacture for other parties and would this be a final arrangement, or would there be some kind of the whole deal? Thank you.

Sandeep Sikka: I will answer your question in a sequence. As regard the previous concall, I think what I would have stated is that Q3 we had Rs.100.6 crore. I have seen that was the EBITDA and I think we should be able to maintain that and Q4 is there although the margins have come down slightly. It is due to the fact that many input prices have increased and the pass on effect happens with some lag, the negotiation for which happens with our customers, so they may agree, or they may not agree, they take time to sometime to agree on that but in terms of the guidance it remains the same that the run rates have been maintained. Run rate can slightly get disturbed during this financial year because we have one glass furnace which may be coming up for repair and during that repair, we lose tonnage in the sales for that particular period but once it is repaired then the life of a furnace is good to go for next 8 years to 10 years. Second question is in terms of arrangement with Brilloca Limited (Brilloca) which is a wholly owned subsidiary of SHIL for supply of finished goods to them. This is a contract on an arm's length basis which is duly vetted by third parties, by audit committee, by board and also approved by shareholders. Company is independent to sell any of its product but excluding the brands Hindware which belongs to Somany Home Innovation Limited, so it can go for any third-party brand to anybody and manufacture for them. These two companies are independent of each other in terms of decision making now.

Lucky Nasir: In terms of your long-term debt, you mentioned it is Rs.750 crore, what is the figure would you have in mind for another two years in terms of comfort level on the balance sheet?

Sandeep Sikka: As we are investing money into further expansion because our capacities are already reaching 85%-87%. We have to expand otherwise we will miss growth part of the business,. We are investing into development of the glass facilities, the pipe facilities, so the debt level may increase as on March 31, 2022 because the money would have been invested but the plant would have not started. Maybe in three years' time, it will come down substantially because right now our repayment is lower at somewhere around Rs.85 crore to Rs.90 crore per annum but in coming years the repayments will increase on this Rs.750 crore of debt but broad thought is that we should be adequately leveraged. We should be able to maintain good amount of debt because debt is coming at a good cost to us which is around 7% to 8% pre-tax cost, so post-tax cost is much lower. We will be able to create lot of shareholders value using appropriate amount of leveraging balance sheet.

Lucky Nasir: Thank you Sir fantastic and one last small question, the CPVC capacity of 35,000 tonnes to 38,000 tonnes, does this have the same arrangements as the other building products with Somany Home or can HSIL sell this independently in the market?

Sandeep Sikka: HSIL can sell any of its products independently into the market.

Lucky Nasir: No, but the CPVC also does it have a branding arrangement with Brilloca or we sell directly in the market?

Sandeep Sikka: No, I think it is important for everybody who is attending this HSIL call, so the brand Hindware now as a part of the demerger, it is not part of HSIL, so it is a part of Somany Home Innovation Limited and its wholly owned subsidiary, Brilloca. So, whatever is manufactured under the branding licensing contracts, any products which is manufactured by HSIL for Brilloca or SHIL under the brand Hindware can only be sold to them but not in the market. But for any third-party brand they want to get anything manufactured from HSIL, it can be done by HSIL.

Lucky Nasir: So, the CPVC we are doing under Hindware?

Sandeep Sikka: Yes.

Lucky Nasir: Thank you Sir.

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

Rajesh Shah: Congratulations for the good set of numbers for Q4. I have just two questions. One is regarding the EBITDA margin, the guidance that in your last concall, you have given was 18% in a quarter but this time because of the expenses has gone up and some arrangement of inventory that has gone down to 15%, so will we maintain the same guidance in the next subsequent quarter or how you see the subsequent quarter future?

Sandeep Sikka: When we give a guidance I think there was a disclaimer with a guidance that it was medium to long term figure because it is very difficult for any organization to give any quarterly guidance and generally, it is not our practice to give a quarterly guidance but to just to explain that why the margins are slightly lower as I explained some input prices of raw material have increased drastically in last one quarter but currently, there is a lag in terms of passing onto the market.

Rajesh Shah: But we have taken the price increase in the product, right in Q4?

Sandeep Sikka: Yes but these price increases are not absolute one to one arrangement, you have to see the market, you have to see how the market is also behaving and then only you can work around it. Especially on the glass when we deal with all the multinational clients, it is a time taking process for seeking any approval for any price hikes, so we are working towards that and as far as guidance of margins is concerned, our guidance is always on a medium to long term range, so it is not on quarterly basis.

Rajesh Shah: Okay and Sir second question is when we have building margin of let us say you have given already given the answer of 3% to 4%, so every time whenever the margin expansion will happen, it will be in the glass division only, right?

Sandeep Sikka: Primarily because that is the largest entity within the organization, Packaging product entity and there the market opportunity on an overall basis is also huge which we are trying to tap in.

Rajesh Shah: Okay, so because of this once we have guidance of like say 18% so with the comparison of peer our market capitalization also will be like in the next coming two years to three years is more than also it will be Rs. 4000 Crores to Rs. 5000 Crores?

Sandeep Sikka: Rajesh, it is always our practice, whenever we are giving market guidance, it is always on a medium to long term.

Rajesh Shah: Sure, thanks.

Moderator: Thank you. The next question is from the line of Saurabh Shroff from QRC Insurance Solutions. Please go ahead.

Saurabh Shroff: Good evening gentlemen. My first question is on the Packaging Products Division, what are the demand trends that you are seeing let us say in the last three weeks to four weeks, since lockdowns have started to spread, how are your customers reacting to this?

Rajesh Khosla: Thank you, Mr. Sikka. You are asking the sensitivity between a lockdown and the consumption pattern of the glass products. Am I right?

Saurabh Shroff: Yes, that is correct. Correct me if I am wrong but from where I am coming from is that December quarter was a lot of normalization even up until middle of March or almost till end of March life was pretty normal and coming back to normal; and then we were obviously had this shock with regional lockdowns plus we are sort of in the summer seasons for let us say the beverages company, so I am just trying to get a sense that how are your customers reacting to this lockdown?

Rajesh Khosla: There are two parts of that, one is the Industrial averages and second is our company performance in these bad times, so these are two separate things that we have to understand. Now, I will answer first about the industry averages, when I say when there will be a lockdown it is very typical of that 30% to 35% of the consumption of beverages particularly beer and liquor and all they happen in a restaurant, pub and bar and hotels and around 65% it happens the people consume in their house, parties and close parties and all. So, with the lockdown this 65% remains intact and slightly goes up, so the demands basically from 65% home consumption go to 70% and the other consumption it comes down to 5%-7%. So, the total net effect comes out to be 75%, demand remains 25% lowered down. In the case of a beer segment which is quite a big segment so, what happens is the demand particularly in the Northern region where Delhi is struggling and the whole Punjab, Delhi, UP are struggling. The demand has fallen by around 40% to 45% and secondly in the Southern part it has dropped by 25% and in other parts around 30% something like that. So, these are the numbers, typically when there is absolute lockdown you can very well assume that the total consumptions will come down to 70%. But the problem is, it is not only the consumption by the consumer the problem is the whole supply chain gets disturbed some time depending upon the type of lockdowns, we are forcing. If there is no transportation, if there are no facilities, if the people are not coming in the factories to fill up the bottles, probably the supply chain will dry up though there is end consumer demand, but the supply chain cannot sustain with that part. So, this is one part. Second part is you were talking how we are, how as our company, I mean to say HSIL respond to that? We have the long-term contracts with our customers and we are always in an advantageous position even though there is a fall in the demand, basically, because of the lockdowns but we try to get some extra share from our customers through long-term basis and other arrangement basis. So, that is how we are managing the show.

Saurabh Shroff: I guess given our, leading market share that obviously puts us in a good position.

Rajesh Khosla: Yes, we have a wonderful team, and they work very hard, and I hope that even in this lock down the numbers will be better than what it should be.

Saurabh Shroff: Understood, and my second question is on the building material side, so just to clarify are we as of now doing any contract manufacturing for a third party?

Sandeep Sikka: Right now, we are doing only for Brilloca. We may do for a third party as and when the demand comes.

Saurabh Shroff: What is our capacity utilization in this segment?

Sandeep Sikka: In building products; we have been able to build a good capacity for utilization of somewhere around 85% to 87% during the Q4.

Saurabh Shroff: Any plans to add capacity to this particular segment?

Sandeep Sikka: Pipes we are adding capacity, as already explained.

Saurabh Shroff: No, I am talking in ceramic or the sanitaryware?

Sandeep Sikka: No, right now no.

R.B. Kabra: I will just add in here. We are adding capacity of around 150,000 pieces between both our plants by putting up two shuttle kilns and by expanding our casting capacities which we announced last year and the work has just started and I think by the end of this year capacity will go on stream.

Saurabh Shroff: Okay, got that.

Sandeep Sikka: New capacity announcement is not there. This is already announced capacity.

Saurabh Shroff: So, how much is this as addition on the existing day?

R.B. Kabra: That will be around 7%.

Saurabh Shroff: Okay.

R.B. Kabra: But it will be all for large pieces and big pieces for which demand is growing in the market place because people are going for better and better products and high-end products, so we are building capacity for producing more high-end products.

Saurabh Shroff: Okay, Sir one final question on this I am sorry, I am little bit new to the company maybe you have answered this in the past, so I apologize in advance. What was the rationale for keeping the manufacturing in this business and marketing in the other business, if you can just recap for me briefly?

Sandeep Sikka: If you see before demerger HSIL had around eight businesses, we had Sanitaryware business, faucets, pipes, consumer products, EVoK Furnitures and then we had a glass packaging, PET packaging and other packaging products. So, whenever we are talking to any investor community there was mix of a B2B and B2C business within HSIL. We worked extensively for two years, worked with big fours consultants to understand how we can demerge it, so one important point came is that there are B2C businesses and there are B2B businesses and also to make it efficient from a stamp duty impact. If we transfer the parcels of land and other things so, there would have been an outflow in terms of the stamp duties, so based on the recommendation of the legal counsels, based on the recommendation of the market players, outsourcing is not new to India and this is an excellent thing which we are working on today. That is why we retained the manufacturing part here, so that the scheme is more efficient in terms of stamp duties and other things.

Saurabh Shroff: Okay, understood. Thank you very much and wish you all the best and stay safe.

Moderator: Thank you. The next question is from the line of Magan Shah from Money Bee. Please go ahead.

Manan Shah: Congratulations on good set of numbers and thank you for the opportunity. My question is pertaining to the Building Products division. Sir, if you could tell me how much of our capacity is earmarked for HSIL currently?

Sandeep Sikka: There is no marking of capacity as such that we are marking a capacity for Brilloca or HSIL. So, it is based on our annual contract and is also based on our monthly contract. So, that is how the contracts run between HSIL and Brilloca and also the annual contracts.

Magan Shah: Is there a certain number of mix that you have supply on a monthly basis?

Sandeep Sikka: And annually also.

Magan Shah: And annually also?

Sandeep Sikka: Yes.

Magan Shah: So, after catering to HSIL how much surplus capacity will we have to cater to other third parties?

Sandeep Sikka: Based on the plans going forward, we feel that very little quantities may be available for third party, so we will having capacities to cater right now in next two years practically to Brilloca only.

Magan Shah: So, do we plan to enhance our building product capacity to cater to other companies or our focus is only on Brilloca?

Sandeep Sikka: We have already answered this question. There is pipe expansion, there was a building product expansion which we have discussed in the last few calls other than there is no new additional capacity expansion announced by the board.

Magan Shah: Okay, and in the second wave of COVID right in how do you see the demand foreseen in the next couple of quarters?

Sandeep Sikka: This COVID lockdown is a different from COVID lockdown which happened last time, so demand may go off in certain areas as Mr. Khosla explained right now we were having tough situation in North, but I think based on the limited data which we are getting that Mumbai is opening up, Maharashtra is little bit opening up, but Karnataka is going under the lockdown. So, we feel that the lockdown impact will be there all across the country but spreading on six weeks to eight weeks every part of the country may get affected, but the revival also we have seen very fast in last year. So, last year again when we were losing the turnover in the first quarter because on account of lower liquor sales, beer sales, bottles were not sold but then the recovery has been very fast and in Q3 and Q4 we were able to recoup to a large extent.

Magan Shah: Can you also tell me whether the channel inventory right now high or it is like sold out?

Sandeep Sikka: Channel means what?

Magan Shah: The distributors?

Sandeep Sikka: HSIL sells only to B2B. They do not sell through the channels.

Manan Shah: So, the sales are altogether to Brilloca, right there are no middleman?

Sandeep Sikka: No, there is no middleman.

Manan Shah: Thank you so much. That is it from my side.

Moderator: Thank you. The next question is from the line of Aman Rai from Edelweiss. Please go ahead.

Aman Rai: Sir, just wanted to check if you see any increase in demand of vials because of the vaccination or other medication that is being used for COVID?

Rajesh Khosla: What I understand you are talking about the vials demand. Am I right?

Aman Rai: Yes, Sir.

Rajesh Khosla: Now let me explain you, the total vials demand in the country is around 80,000 tons per year and out of these 30,000 tons is imported and 50,000 tons, the glass industries are manufacturing locally. So, as far as demand is concerned yes, the demand has gone up in the COVID related activities particularly like vaccine and other injections and other things. But these are a different type of glass, this is called a type-1 glass, for the type-3 glass because other activities have been subdued so the demand of the vials, particularly in type-3 which is a commercial glass has reduced to some extent, but once I think lockdown everything opens up it will be back to normal and in the type-3 demand we are yet to capture the material which was coming from China. The Government of India will be pushing very hard to at least cater the demands which earlier the pharma industries were catering with the imported vials. So, still you can say around 40% of the demand is yet to be catered to control the imports and then it will take off. What I can foresee after a year or so when the pandemic will totally be in control, there will be a huge spend on the healthcare infrastructure and health related things and there the vials demand will go up like anything. So, today what I foresee 80,000 tons demand which certainly is going to jump in multiple folds in the times to come. But again, I repeat the same thing the first step is we have to reduce the imports in the country, because pharma and the government, they are now interested to have their supply chain within the country and then the second step will be, there will be a huge demand which they are going to come up. Thirdly, India is still a pharma capital of the world and after this situation when the China has a credibility issue for the rest of the world there will be some sort of demand which is going to come up from the other countries in India and there also I think the vial demands will be on peak. So, we expected good amount of business in vials and just to inform you that our new project of 154 tonnes, which Mr. Sandeep Sikka has informed you, there is the dedicated line machine which is going to produce 365 days all the vials of high quality.

Aman Rai: Okay, this will all be type-3 glass?

Rajesh Khosla: Yes, we are producing only type-3 glass and type-2. We are not producing type-1 glass right now. The important word is right now.

Aman Rai: Okay, just in continuation so, have you seen shift in demand because some players would be busy catering to type-1 glass demand. Have you seen something of that?

Rajesh Khosla: No, type-1 is not a choice. Type-1 is very expensive one.

Aman Rai: Right, so some of the usual players would still be manufacturing type-1 glass and because of their capacity constraints certain other requirements would start flowing to companies like HSIL is that the case?

Rajesh Khosla: Okay, type-1 and type-3 is a technical issue so, wherever the material, wherever the pharma products are to be packed in type-1 they will do it in type-1 only. Wherever, they can do in type-3 they are going to do in type-3 only. So, what we expect that in the times to come, there is an overlapping area also where there are some high-end pharma products where they can easily pack it in type-3 technically, but they can afford to buy the type-1 so they are doing it. But in case the demand goes up supply is less, this type of overlap demand can come back to type-3. We expect that our type-3 production with the new furnace will certainly take care of all these demands, right now also we are producing. We are catering around 5% to 7% of the vials demand in the country even today.

Aman Rai: Okay, so these are regular medicine vials, not vaccine vials?

Rajesh Khosla: Yes, they are the regular. They are vaccines also, but they are normal vaccines. They are not high end COVID vaccine.

Aman Rai: Okay, understood. Thank you so much.

Moderator: Thank you. The next question is from the line of Nikhil Gada from Abakkus Asset Management Company. Please go ahead.

Nikhil Gada: Sir, just couple of questions. First is I think on the call you mentioned that one of our glass furnaces are going up for repair, so could you tell me when we are planning to take this up for repair and which furnace is this one, the 651 or the 951?

Rajesh Khosla: We do not have 650 metric ton furnace, our furnace size is 500 metric ton. We have two 500 metric ton in Bhongir plant so out of that one furnace will go to repair. As Mr. Sikka informed that after every ten years, it is a normal practice all around the world, the furnace is to be rebuilt and typically it takes around almost two and half months to three months-time. So, in this COVID period, there will be little challenges on the timeline but still I think as a company we will try to finish within a time frame of that and this rebuilding will be coming most probably from the August onwards. So, August-September and part of October will be a period where this furnace will be shut down and it will be repaired.

Nikhil Gada: So, we will not have this capacity at least for this two and half month-three month?

Rajesh Khosla: Yes, this capacity will go out for us. But, it is not going to have an impact 100% on us because we also try to build up the inventory during the year, which we have already done that and part of that will be covered up by the inventory dilution, not 100% but part of that.

Nikhil Gada: Sir, I wanted to understand the gas price scenario as in Q3 also we saw some benefits of gas prices in our margins??

Rajesh Khosla: No, I missed out what do you say?

Nikhil Gada: Sir, I am trying to say that I wanted to understand whatever gas prices in Q4 versus Q3 because we have seen a good benefit in Q3 as well as Q4 margins?

Rajesh Khosla: You mean to say glass prices?

Nikhil Gada: Yes, gas prices.

Sandeep Sikka: Fuel prices Rajesh!

Rajesh Khosla: Okay, I think fuel prices, since the fuel market is just opened up so many private players are there, now we can always negotiate with the private players to get the best deal out of them. So, we are also doing one-to-one negotiations with these private players as well as the government players to get the best deal out of them. Yes, our gas prices are better, but I am not aware that how far we have to open up our gas prices because this is a confidential deal with the gas suppliers.

Sandeep Sikka: Nikhil, what we can communicate here today is that now, we have flexibility now in our plants to use all mixes of gases. Over last two years to three years, we have invested money towards the development of coal gasification plant, development of the natural gas connections, so we have a capability to use in our fuels, natural gas, coal gas, furnace oil, pet coke.

Rajesh Khosla: I would like to inform that we are one of the players in the world which has such a flexibility to use any type of multiple fuels. So, we can use natural gas, use coal gas, LPG, furnace oil, LPG, we can also use pet coke and other type of fuels. So, we have developed the capability and the capacity and competency to use all these mix of the fuels in the best possible economical manner.

Nikhil Gada: This would be across all our plants, right?

Rajesh Khosla: Yes, this is across all our plants in glass division.

Nikhil Gada: Yes, got it and Sir, one more question, sorry I missed the building materials margin part. I think that was the first question. So, just wanted to understand our margins were close to 5% - 5.5% in Q3 which has gone down to 3.5%. I understand you had mentioned that that is the range 4% to 5%, so any specific reason or it is just quarterly thing?

Sandeep Sikka: Basically, we have given the guidance number of times now that the range is between around 4% to 5% because this company, it does not have any now B2C segment with them. It is more of a B2B manufacturer on an OEM basis. So, the long-term margins are based on a third party, we hire big four consultant every year to validate these things, which are taken to the audit committee to the board and based on these the decisions are taken. So, it will remain in this range only. Quarter-to-quarter aberrations may happen up and down because the adjustments have to be done the settlement of pricing, the settlement of margins are done for the annual basis so that the related party compliances as per the approved policies are done.

Nikhil Gada: Sorry Sir, just one last question if I can squeeze in, regarding apart from the cosmetic division where we are expanding because we are already now of hitting at a decent sort of capacity utilization. Are there any plans to expand the capacity in our core packaging business as well?

Sandeep Sikka: So, we will take these decisions but unless board has approved, nothing can be disclosed as such but, we keep considering various options how we can expand our business, because we feel a good potential in this to grow. But, as of now nothing has been approved by the board so we cannot talk about it, right now.

R.B. Kabra: Mr. Sikka, I will slightly pitch in regarding the capacity expansion, number one is 154 tons is already under implementation and on a day-to-day basis we have been debottlenecking all our capacities as much as possible from time to time. So, those capacities will add automatically, it is a very organic and normal routine of things which we go on adding up.

Nikhil Gada: Sure, Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.

Nitin Gandhi: Thanks for taking my question. Can you please share what is likely to be the market share post implementation of the capex plan in as far as vials business is concerned, at present we are catering up to 5% to 7% so, what it will be likely and what is likely asset turnover for the expansion? Thank you.

Rajesh Khosla: As I informed that the vial market as on today for pre-pandemic is around 80,000 tons a year and right now we are producing almost 4,000 tons to 5,000 tons a year and once our new furnace is operative, we will be producing further 5,000 tons to 7,000 tons of vials in a year. So, our total capacity will go up to 10,000 tons -11,000 tons which is almost 15% of the market so, we will be there from 12% to 15% of the market in the vials.

Nitin Gandhi: Yes, there was one more question, asset turnover for the expansion and the relative margin for that expanded capacity and when do you see that it is likely to be fully operational?

Rajesh Khosla: Which one?

Sandeep Sikka: So, basically from this new facility, we feel that in the first two years the expected turnover should be let us say 0.8% of the investments and then over a period of time it gets build up, so for margins, we are expecting higher than the existing margins because this is a value added product and get a higher sales realization so, until unless it has started I think it is difficult for us to give a margin guidance. I think wait for some time we will give the guidance as we are nearer to the implementation time.

Nitin Gandhi: But surely seems it 0.8% it should be somewhere around 24%-25% margin you must be aiming at least, aspiring to that?

Sandeep Sikka: I could not get your question?

Nitin Gandhi: If the asset turnover is at 0.8%, I am sure at current dynamics you are at least aspiring to have 24% to 25% margin then only it makes economic sense?

Sandeep Sikka: Yes, it is there but in this we will have to build up the capacity fast because we feel a stronger demand coming through so let us start and I think once we are nearer to it, we will give a guidance number.

Nitin Gandhi: Okay, we are expecting this to be operational in the first quarter of the next year, right?

Sandeep Sikka: Yes.

Nitin Gandhi: Thank you. All the best.

Moderator: Thank you. The next question is from the line of Shreyans Jain from Quest Investments. Please go ahead.

Shreyans Jain: Congratulations on a good set of numbers. Just broadly on the building products, can you give me some colour on how the sanitary, faucet and pipes business has behaved in terms of growth?

Sandeep Sikka: Sorry, I missed your question how much is the mix?

Shreyans Jain: Yes, in terms of what is the mix and how have they behaved in terms of which category has grown faster than?

Sandeep Sikka: So, I think we have answered this question in the last call, that we are under a confidentiality contract with Brilloca because our results have come before them so we cannot disclose anything other than what we have already disclosed in the market because it may trigger a insider for them. Sorry for this.

Shreyans Jain: Okay, no issue. Just broadly wanted to understand Sir, if you were to make the building products for a third party what kind of margins would you make on those products apart from Brilloca?

Sandeep Sikka: What Sir?

Shreyans Jain: If you were to make building products for a third party would your margins be in the same range or would you be able to take higher prices and so would you be able to do higher margins in this?

Sandeep Sikka: It depends on the SKU which we are doing, it depends on the negotiation what that party does. Ultimately, it is a settlement of a price on a negotiated basis with that party. So, I think that the margin should remain upwards or range bound because it is a pure manufacturing organization.

Shreyans Jain: Sir, we have already added capacity of about 150,000 pieces so, I am just trying to understand with the current growth rate that we have seen in the building products, do you think this capacity will be able to suffice for the next one year or two years or you will need to do some capex?

R.B. Kabra: This capacity will be sufficient for next two to two and a half years, so may be how the market behaves looking to that may be next year we have to decide internally to make a projection and see whether we need to expand the existing facilities or we have to go for a Greenfield plant, but as far the current market scenario, we feel that this capacity should be good enough for next two year to three years.

Shreyans Jain: Sir this last bit on the pipes, after increasing the capacity what will be your total capacity be, currently it is 35,000 ton to 38,000 tons post expansion?

Sandeep Sikka: So, it will be around 48,000 tons.

Shreyans Jain: Okay, alright. Thanks a lot.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Sandeep Sikka, for closing comments.

Sandeep Sikka: I would like to thank everybody for attending this call today. I know there would have been more questions, we will be happy to take if you can write it to us. Q3 and Q4 has been the good numbers for us. I think the medium-to-long-term guidance is that we should be able to maintain the margins and able to build up the margin with all the new initiatives which were there. Current market conditions may have certain fluctuations on the results especially in quarter-to-quarter due to the COVID pandemic. But having seen last year we have seen that the ability of the company to come into profit is strong and we should be able to grow and sustain ourselves. Thank you everybody for connecting today. Thank you very much.

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

Notes:
1. This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings
2. Figures have been rounded off for convenience and ease of reference
3.