

"HSIL Limited Q3 FY19 Results Conference Call"

February 05, 2019





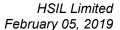


MANAGEMENT: Mr. SANDEEP SIKKA – CFO, HSIL LIMITED

Mr. Naveen Malik - VP and Head - Corporate Finance,

HSIL LIMITED

MODERATORS: Mr. SANJEEV SINGH - EMKAY GLOBAL



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Moderator:

Ladies and gentlemen, welcome to the Q3 FY19 Results Call of HSIL Limited hosted by Emkay Global Financial Services. We have with us today, Mr. Sandeep Sikka – CFO and Mr. Naveen Malik – VP and Head - Corporate Finance. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjeev Singh of Emkay Global. Thank you and over to you, sir!

Sanjeev Singh:

Good evening, everyone. I would like to welcome and thank the management for giving us this opportunity. I would now hand over the call to the management for opening remarks, over to you, sir.

Naveen Malik:

Good evening, Naveen Malik this side. At the start of conference call, I would like to refer to the disclaimer from our investor presentation. Certain statements in this conference call concerning our future growth prospects are forward-looking statements within the meaning of applicable securities laws and regulations and involve a number of risks and uncertainties, beyond the control of the Company that could cause actual results to differ materially from those appearing in such forward-looking statements. You are requested to refer to the disclaimer from our investor presentation before acting or taking any decisions on the basis of this conference call.

The results for the quarter ended 31st December 2018 have been prepared in compliance with the applicable Indian Accounting Standards (Ind AS) notified by the MCA.

With effect from 1st July 2017, GST has replaced Excise Duty, Service Tax, and various indirect taxes. Revenue for corresponding nine months ended 31st December 2017 and year ended 31st March 2018 were reported inclusive of Excise Duty whereas revenue for the quarter ended 31st December 2018 is reported net of GST. Comparative revenue of the Company would have been different if previously reported corresponding period revenue was shown net of excise duty. In this conference call, we are comparing revenue net of excise & GST. You may refer to note 5 of results shared with stock exchange for further details.

 HSIL has for the quarter and nine months ended 31st December 2018 achieved revenue of around Rs.736 crore and Rs.1,901 crore respectively. After adjusting for GST impact as explained in note 5, there is a revenue growth of around 27% for quarter and 20% for nine months.

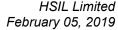


 The operating profit i.e. EBITDA for the quarter and nine months ended 31st December 2018 is around Rs.109 crore and Rs.211 crore respectively as compared to previous year corresponding figure of around Rs.74 crore and Rs.201 crore.

These were the few highlights relating to overall company results and now we move to the segmental results:

A. Building Products division:

- The Building products division, for the quarter and nine months ended 31st December 2018 achieved revenue of around Rs.307 crore and Rs.846 crore respectively, which after adjusting the excise and GST impact has shown Y-o-Y growth of around 21% and 16%.
- Commercial production of the CPVC and UPVC Pipes and fittings plant commenced on 9th
 August 2018 and achieved Sales of Rs.46.82 crore for quarter and Rs.70.29 crore for nine
 months ended 31st December. Products have been well received in the market. If we include
 pre COD sale of Rs.47.26 crore, then total sale of Rs.117.55 crore is achieved during first nine
 months.
- EBIT of Building products business includes EBIT on recently launched CPVC and UPVC Pipes
 and fittings business, of Rs.0.87 crore negative for the quarter and Rs.11 crore negative for
 nine months as compared to corresponding previous year gain of Rs.1.18 crore and Rs.1.29
 crore.
- If we adjust the effect of Pipes business, the EBIT of the Building products division for quarter and nine months is Rs.40.62 crore and Rs.122.96 crore as compared to previous year figure of Rs.41.46 crore and Rs.122.06 crore.
- B. Next we will talk about the **Packaging products division.**
- Packaging product business has bounced back with all furnaces operating as well as return of volume growth. Packaging products division for the quarter and nine months ended 31st
 December 2018 achieved revenue of around Rs.317 crore and Rs.768 crore respectively after adjusting for excise and GST impact, there is revenue growth of around 30% and 20% signifying pickup in sales growth.
- EBIT for the packaging products division for the quarter and nine months ended 31st
 December 2018 is around Rs.33 crore and Rs.25 crore as compared to previous year corresponding figure of around Rs.18 crore and Rs.49 crore.
- Consumer products division for the quarter and nine months ended 31st December 2018 continued its upward growth and achieved revenue of around Rs.92 crore and Rs.222 crore representing growth of 55% and 51% over previous year corresponding figure. During the last quarter, consumer product division became EBIT positive and continued to be so in this quarter also. For the quarter ended 31st December 2018, the consumer products division recorded EBIT of 2.75 crore against Rs.1.04 crore negative in corresponding figure. During





nine months ended 31st December 2018, EBIT loss reduced to Rs.3.05 crore compared to previous year corresponding figure of Rs.14.67 crore negative.

D. **Retail division** for the quarter and nine months ended 31st December 2018 achieved revenue of around Rs.23 crore and Rs.70 crore against previous year corresponding figure of Rs.24 crore and Rs.73 crore. EBIT loss for the Retail division for the quarter and nine months ended 31st December 2018 is around Rs.3 crore negative and Rs.7 crore negative as compared to previous year corresponding figure of around Rs.5 crore negative and Rs.12 crore negative.

So, for the quarter and nine months ended 31st December, 2018 overall company PBT is around Rs.39 crore and Rs.47 crore as compared to previous year figure of around Rs.25 crore and Rs.77 crore. Profit after tax for the quarter and nine months ended 31st December, 2018 is around Rs.26 crore and Rs.32 crore as compared to previous year corresponding figure of Rs.16 crore and Rs.51 crore.

The total net bank debt of the company as on 31st December 2018 is around Rs.1191 crore with long term debt of Rs.714 crore and short term debt of Rs.477 crore with overall loan funding cost at 7.43%

Now, we can open the call for the question and answer session.

Moderator:

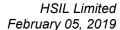
Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Shriram R from Sundaram Mutual Fund. Please go ahead.

Shriram R:

So basically sir, if I look at your sanitary ware growth, I mean or the building products growth if I knock off the pipe revenue it is about 3% on a Y-o-Y basis. So, I just want to understand what the outlook for the same and what is the plan for FY20. My second question will be on the glassware business which has posted good numbers, so what is the kind of price hike we have taken, for the quarter and what will be the outlook, is there any other price hike that is coming up for Q4?

Sandeep Sikka:

First answering your first question relating to the overall growth from sanitary. Overall growth from the BPD is around 21% and when we try to see ex pipes, it is around 3%. We have been talking about slowness which is there on the overall real estate sector. We feel that, going forward, we should have around 10% growth next year on the sanitary ware, faucets together. But you can have some quarters wherein there is sluggishness in the growth. But the way we have tried to build the business model is that as we are extending the Hindware brand into newer segments, the overall target market size is much bigger and much bigger addressable size which can lead to substantial avenues for growth. Just I will try to explain like sanitary ware market is 4,500 crores, faucet is 7,500 crores market and pipes addressable market size is around another 8,500 crores. Our overall BPD addressable market





size in last 7-8 years has gone from let us say around 3,000 crore at that time to around 20,000 crore market size. We feel that ample opportunities are there to grow in this. Answering your second question, which is relating to the glass division, there have been set of 2 or 3 price hikes. When I say 2 or 3 means few of the price hikes have been effective in the last quarter in December and few of them would be effective maybe in January. This varies from customer to customer depending on the profile of that particular customer but average, price hike if you see the average realization last year to this year the overall increase when say December quarter to December quarter is around Rs. 2,500/MT to Rs. 3,000/MT.

Shriram R:

Sir, just going back to the sanitary ware space, what is our retail to institutional break up? Do we have such things, if you can share with us?

Sandeep Sikka:

We have been always around 75% into the retail and 25% into institutional that is the average number. It does vary on a quarter-to-quarter like this quarter we are around 80% plus on the retail side and less than 20% on the project side. We have discussed this point in various institutional meets also that objective of Hindware brand is not to discount the prices. But when the customer buys, aspiration of that customer has to be maintained and focus has to be there on creating a value in the eyes of the consumers. Which alleviates the overall proposition and you can see the visibility and the sense of ownership. The strong sense of ownership in the minds of consumer is also helping us from the consumer product side wherein we were zero almost 3 years back and we have built huge business from almost a zero to these 9 months we did around 221 crores of turnover on that business. The overall brand strategy is working well and we are extending the brand, so that the addressable market size is becoming bigger for us.

Shriram R:

Just squeezing one more question. On the glass ware business what is our utilization, sir at the moment?

Sandeep Sikka:

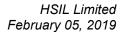
We are around 85% to 90% capacity utilization on the glass and we are just trying to see if we can debottleneck more of the capacity of the glass because now with all the furnaces running, Overall sales is also build up like this quarter we have sold 30% more on the sales side Y-o-Y. And we also are trying to see how we can build further value added products in the furnaces, so that the average realization also increases over a period of time.

Moderator:

Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade:

Just wanted to check first in terms of the mix for us for the building products segment, what is the mix from sanitary ware, faucets any other segments?



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Sandeep Sikka: When we say overall mix without pipes around 30%-32%, is faucets and balance is the

sanitary ware and other accessories which we sell. Pipes figure we have separately disclosed because pipes only started this year on 9th of August. We are disclosing this further separately for the analyst community, so that they can dissect the numbers and understand the data in a

better way.

Achal Lohade: And how much been the growth in case of faucet and sanitary ware, is it similar or is there

substantial difference?

Sandeep Sikka: It is almost similar because some of the quarters when we try to monitor things on a quarter-

to-quarter basis both growth become misnomer but historically if you see the faucets have grown on an average CAGR of 20% plus over last 3-4 years. And sanitary ware was growing at around 8% to 10%. But this is one quarter where in there is some sluggishness on the overall

growth and we have responded that going forward they should come back.

Achal Lohade: And we too hear from the channel that there is competition actually becoming bit aggressive

in the sanitary ware space from the new entrance as well as unorganized. Just wanted to get

color from your perspective as well?

Sandeep Sikka: Competition will always come and go but we are the leaders in this market. And as I told our

objective is not to discount the brand. Anybody can gain the markets because Indian market is bit sensitive on the price. We can also gain the markets by reducing the prices but that is not our objective. Our objective is value creation. The consumer who buys the product should be more satisfied with value of the product rather than thinking what discounts he can get.

Value can come more with the aesthetic value, more after sales-service, the sense of

ownership of the brand and overall satisfaction of the consumer which we look at.

Achal Lohade: So, in terms of the growth you mentioned 8% to 10% growth is possible in the sanitary ware.

What about pipes scaling up, how do you look at pipes from a 2 to 3 year perspective, what

kind of revenue we can probably look at?

Sandeep Sikka: We did around 118 crores of turnover in the first 9 months of operation including Pre-COD

sales of around 48 crores. Current run rate is around 15 crores—16 crores per month. We feel that in around 2 years' time we should be touching somewhere around 300 crores to 350

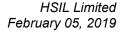
crores plus on the pipes.

Achal Lohade: you enjoy the similar profitability as well, sir? Like what we have for the existing entire

segment, building products segment?

Sandeep Sikka: No, if you see, the sanitaryware margins are very different. Sanitary ware is the most

profitable game but most difficult to operate also in the market. Then, if we try to say faucets





and pipes, they fetch an almost same EBITDA margin of around 12% to 14%. Definitely we see the overall margin game going forward because the contribution of pipes have also started coming in. Contribution from the faucets side is also more with the given base of the faucets business for us. The margins will not be that equivalent what it used to be around 20%, when we see only up in 20%-21% plus of sanitary ware.

Achal Lohade:

And just last question if I may, sir. With respect to the consumer product can you give a similar, what is the mix out there in terms of the key product categories then how we need a growth?

Sandeep Sikka:

50% of our business right now is coming from kitchen hoods, hobs and chimneys and we are the second largest now based on our market studies and going forward I think we should be more aggressive in capturing this market. If you see, lot of investments has been done in last 2 to 3 years, we have stated number of times that we have invested around 55 crores – 60 crores of EBITDA in this business. Now the business has turned around it is showing positive EBITDAs and as we move forward, we feel that EBITDA should grow in this market also. We have market here of around 15% right now in this kitchen hoods, hobs and chimneys.

Achal Lohade:

So the growth, in terms of the growth what is the number we can look at for at the segment level?

Sandeep Sikka:

Overall consumer product division has shown a growth of around 55%-60%. Going with the base now getting wider, I think the future guidance can be somewhere between 45% to 50% for the times to come.

Moderator:

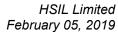
Thank you. The next question is from the line of Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar:

Can you touch upon the reorganization you are planning to do, how you want to separate various businesses and what is the rational for doing the same?

Sandeep Sikka:

This scheme of demerger or you calls it a composite scheme of arrangement was approved by the board in November 2017 and we got the stock exchange approval. Now we have all the shareholders and the lenders approval and we are awaiting the final NCLT approval on this. Basically, the whole rational of doing the demerger was that we were doing 8 businesses. These 8 businesses were sanitary ware, faucets, pipes, consumer products, retail furniture, glass packaging, PET packaging and the security caps and closure. There were different set of investors looking for different set of rationality in their business model or their investment models. What we try to do is we try to create 2 verticals. One vertical is manufacturing excellence and other vertical is which is linked to the consumer excellence which is more of a branding excellence, servicing consumers, creating new products, creating new designs.





These 2 verticals going forward will focus on their core competences and the investors also they can make a rational decision whether they want to invest into a manufacturing organization or they want to work more towards the branding organization. Because as we meet many investors, some of them are also interested in the manufacturing side, rather than the branding side. We have created 2 verticals, so that whole synergy of the businesses lying in 2 verticals and as per the scheme one share of HSIL gets one share of Somany Home Innovations. It is a fairly balance scheme keeping all the stake holders in mind.

Kaushik Poddar: See from one share it will become to, one share each of the 2 company or there be 3

companies?

Sandeep Sikka: No, there will be 2 listed companies. If you are holding 100 shares of HSIL, apart from 100

shares of HSIL which you will continue to hold you will get another 100 shares of Somany

Home Innovations Ltd.

Kaushik Poddar: And the HSIL will be our manufacturing company or ...

Sandeep Sikka: It will have the entire packaging division and it will also house the entire manufacturing for

the building products.

Kaushik Poddar: So, even the sanitary ware plants also will be part of the manufacturing division only right?

Sandeep Sikka: Yes.

Kaushik Poddar: And is it possible that you are looking for some partner to come in your consumer excellence

business or something, is it are you looking at that possibility?

Sandeep Sikka: We keep evaluating various options in the market because the brand they call in the mind of

consumers are pretty strong. But I cannot comment on it until and unless there is something

firm or something which is approved by the board.

Kaushik Poddar: But this consumer excellence thing it will have all the retail things, I mean including say, I

mean say the sanitary ware, pipes and everything. I mean it is a retail, even your retail also,

right?

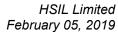
Sandeep Sikka: Yes, so everything which goes to the distribution and dealers will be sold from the

distribution vertical which is Somany Home Innovation and its subsidiary called Brilloca.

Kaushik Poddar: And how will be debt apportioned?

Sandeep Sikka: So, we have a total debt of around 1,200 crores as on 31st December 2018, Rs. 700 crores is

long term debt, I am talking approximate figures here.





Kaushik Poddar: Right.

Sandeep Sikka: And 500 crores is our working capital debt, of 700 crores around 630-640 crores which we

have utilized to build up our pipes plant, caps and closure plant, expansion of sanitary ware, expansion of the faucet unit and certain land parcels. That debt will be retained in HSIL, around 630 crores to 640 crores, and balance 60 crores—70 crores of debt will get allocated between Somany Home and Brilloca. Working capital debt allocation will be based on the rationality of the working capital usage which is inventory and debtors in each of the unit or the drawing power which each of the entity draws from the bank. Broadly if you see the mix

on the working capital it will be around 50-50.

Kaushik Poddar: And what is this company Brilloca Limited or something, what is it that do?

Sandeep Sikka: Basically what we have done is the consumer product as well as the Evok furniture retail will

be part of our Somany Home Innovation Limited which will be the listed company. This listed company will have a wholly owned subsidiary called Brilloca which will house the entire

sanitary ware, faucets and pipes distribution business.

Moderator: Thank you. The next question is from the line of Nehal Shah from ICICI Securities. Please go

ahead.

Nehal Shah: Sir, can you give us the turnover from the caps and closure segment, which is embedded

within the PPD segment?

Sandeep Sikka: The total caps and closure turnover was around 13 crores and good EBITDA margin ranging

around 25%-27%.

Nehal Shah: So, we already scoring around 30% EBITDA margin on this 13 crores turnover?

Sandeep Sikka: Yes, in fact absolute margin during this Quarter was around 45% because of some Forex gains

as Rupee keep fluctuating and on account of fluctuation, so I am talking normalized margin before exchange fluctuation of around 30% but if include the gains on the Rupee appreciation

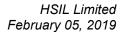
it is around 45%.

Nehal Shah: And this is 13 crores, right?

Sandeep Sikka: Yes, 12.3 crores.

Nehal Shah: 12.3 versus nil of corresponding quarter?

Sandeep Sikka: Nil for the corresponding quarter, yes the business was not yet operational.





Nehal Shah: And what was it Q-o-Q like the earlier quarter?

Sandeep Sikka: 9 months is 23 crores.

Nehal Shah: So, last quarter would be ...

Sandeep Sikka: We are actually a little bit slow here, I told last time also because the challenge in this

business is the seeking approval from the customer on validity of the cap. Most of our clients are multinational and they have their own set of procedures for testing. Few of the customers are taking time to open up but once it opens it becomes entry barrier for anybody else also to

capture that market.

Nehal Shah: So, how many customers have we service to if you take major into consideration?

Sandeep Sikka: Just 1 or 2 of them right now.

Nehal Shah: And what is our target in terms of client consideration and in terms of topline in this segment

for say next 2-3 years?

Sandeep Sikka: We are now continuously trying to expand the capacity here and we feel that we can build a

turnover ranging around 170 crores in next 12 to 18 months, with a margin of somewhere

around 30%-32%.

Moderator: Thank you. We have the next question from the line of Kashish Shambhawani from Newgen

Capital. Please go ahead.

Kashish Shambhawani: My first question is on the building product side. Our margins this quarter were 15.7%, I am

talking about EBIT the down pay 100 bps, 130 bps as compared to last quarter and last year.

So, what is the reason behind this dip? And what can we expect going forwards in FY20?

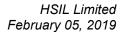
Sandeep Sikka: Answering this question as I told you on a quarter-to-quarter basis become extremely

difficult. In a market, there are subsets of many activities which are going in a particular quarter we may do more of marketing spend. But I have given a broad guidance of EBITDAs which we expect that sanitary ware will be around 20%-21% plus and pipes, once it is fully stabilized reaching a turnover of around 350 crores to 400 crores and faucets around 12% to 14% on a stabilize model. Answering your call on a quarterly basis on dip becomes slightly

difficult to communicate.

Kashish Shambhawani: So, going forward say FY20 it should be 20% EBITDA?

Sandeep Sikka: Only for sanitary ware.





Kashish Shambhawani: Combined building products what can we expect?

Sandeep Sikka: Ranging somewhere around 16% to 17%.

Kashish Shambhawani: This you include pipes also?

Sandeep Sikka: I am excluding pipe right now because it is in a growth stage. Maybe around 2021 the pipe

will be the full grown business. Then you can include pipes also at around 16% combined

together.

Kashish Shambhawani: And coming to consumer division we finally turn profitable in last quarter and this quarter we

did very well, 3 crores EBIT and you gave a guidance of 45%-50%. So, let us say we hit around

450 crores number. So, can we do 10% margins there which was your initial guidance?

Sandeep Sikka: What is 45%-50%?

Kashish Shambhawani: Consumer growth.

Sandeep Sikka: Once we are fully mature in this business which we feel that once we reach our sales

turnover of around 500 crores. We should get an EBITDA margin of around 10%.

Kashish Shambhawani: And this will be EBIT margin only, right?

Sandeep Sikka: There is not much difference between EBIT and EBITDA here because model is a trading

model. We do not manufacture much of the material other than some assembly of water

heaters which we do in house. So, not much of depreciation is there.

Kashish Shambhawani: And recently, I read an article which said that you are setting up an 80 crores plant in

Telangana for heater division.

Sandeep Sikka: We keep exploring various opportunities and some other times various government agencies

or the news channels do pick up these news. I can confirm only to you something which is

approved by the Board. There is nothing right now approved by the Board.

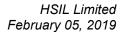
Kashish Shambhawani: So, are you planning any CAPEX for consumer products like going forward?

Sandeep Sikka: We keep buying some moulds which are very essential for our designs and that is something

we are right now having on the block.

Kashish Shambhawani: But whatever manufacturing will be there it will be in HSIL only, right?

Sandeep Sikka: Right now board has not approved and hence I cannot comment on it today.





Kashish Shambhawani: And when you talk about 30%-35% margin in cap that is EBITDA margin. What is the EBIT

margin there?

Sandeep Sikka: EBIT margins shrinks because it is a capital intensive business and we have invested huge

amount into the moulds. So, the shrinkage of EBIT margin to EBITDA margin is there around

12% to 13%.

Kashish Shambhawani: And what is the FY20 guidance for packaging products?

Sandeep Sikka: We should be able to grow by around 20% on a company as a whole. Packaging growth will

come from higher volumes and also the pricing in the market. Then consumer growth is there, faucets, sanitary ware we already spoken. All the investments which we did around 3 years back, financial year 2019-2020 should be the first year wherein the company should be able to see the first set of outcomes of those investments on a little bit of a better scale as

compared to what it was in this financial year.

Kashish Shambhawani: And we did around 10% margin in packaging, so can we maintain this going forward, EBIT

margin?

Sandeep Sikka: We should be able to maintain that. But when I say EBIT margins today are subject to many

things, exchange fluctuations. In the last call of the first half we had disclosed that few of our foreign currency exposures although being hedged under the call spread. But the accounting impact of the call spread options also gives a fluctuation in the margins. But on a long term basis without the exchange fluctuation I can confirm that in a short to medium term we

should be able to hold on to these margins.

Kashish Shambhawani: And my last question is on the demerger, has been almost 4-5 months now attend the

shareholder meeting. So, when can we expect the approval from NCLT?

Sandeep Sikka: The way every investor is waiting for it, we are also waiting for NCLT final approval and

technically things are not in our hand. We have to just wait for NCLT to just pass order now.

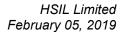
Kashish Shambhawani: Is there anything pending from our side or it is just NCLT delay?

Sandeep Sikka: I cannot call it a delay. There was the last hearing on 25th of January, they ask us to file one

affidavit which is relating to some changes in the Companies Act. And the next date we have

been given to understand is around middle of the March.

Kashish Shambhawani: So, it is more of a procedural thing, right?





Sandeep Sikka: More of a procedural, because law is also evolving and every now a day we have

amendments to the Act. They just want a confirmation that we will comply with the

amendments to the Act.

Moderator: Thank you. The next question is from the line of Harsh Shah from Dimensional Securities.

Please go ahead.

Harsh Shah: Sir, while ago you mentioned that expect the entire BPD division to grew by 10%, sir. Is this

including the pipes or this is only for sanitary and faucet?

Sandeep Sikka: I gave for only sanitary and faucet. Pipes will be different because since we are not having any

pipes here, current year will become a base going forward and this year we expect to do more than 150 crores turnover in the pipes. And we expect to grow at around 60%-70% plus

on this business going forward for at least 1 to 2 years.

Harsh Shah: And at what has your optimism for the sanitary and faucet division? And when you say 10%

growth for these 2 divisions combined, how much of the growth are you basing on the real

estate market growth? And how much will be your market share again?

Sandeep Sikka: Very difficult question to answer, because what we do is we sell to the distribution, we sell to

our dealer ultimately as I told, our sale to the projects is not that high because we do not

want to discount the brands. Our idea is to create a value in the market. We are focusing

more on replacement market and on the people change their houses and upgrade their houses which we are focusing on right now. And off late in last 6 months in certain pockets

we are seeing little bit of optimism that the real estate activity has slightly took off not on the

high rises but on the plotted areas. We are seeing some activity happening which we feel that

should lead to some growth in this market and also given the fact that, in the interim budget

government has reduced some amount of taxes for few set of tax holders. We should also see some demand picking up on the overall economic side. Ultimately the people would try to

own the houses, try to build their houses, and try to renovate their houses. That is leading us

to bit of optimism hereon seeing around 10% growth. But it is all subject to market conditions

also.

Harsh Shah: And the last question is on book keeping. So, your employee costs have increased almost in

line with your revenues. So, what can be the run rate we can expect going ahead?

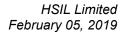
Sandeep Sikka: If you see on an apple-to-apple basis you may not be able to compare the things in the right

perspective because if you see how many verticals we have created. Our building product

division is a separate vertical and within building products since pipe captures most of the

hardware business, that is also sort of a separate vertical. We have building teams, so that we can set up various distribution things to the market over a period of time which will be our

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core strength going forward. And this is a sort of investments of building and leading our investment to the various distribution channels to the markets. Like we have very strong about 20,000 dealers on the sanitary ware and faucets. But pipe is sold primarily through the hardware channel. We are activating all those channels and then the consumer product is there which is a separate channel. Each channel is there and I understand there is a higher employee cost but this is a sort of investment which should yield better results going forward.

Harsh Shah: And just last question, you mentioned that on company level basis you are expecting to grow

by 20%, was that correct?

Sandeep Sikka: Yes.

Harsh Shah: So, how much are we expecting the employee cost to grow by?

Sandeep Sikka: Very pin pointed question, very difficult to answer such a pinpointed question, my apologies

for that.

Moderator: That you. The next question is from the line of Pritesh Chedda from Lucky Investment

Managers. Please go ahead.

Pritesh Chedda: Sir, what would be the EBITDA split for FY18 where your EBITDA was 272 crores into

manufacturing EBITDA and the Somany Home Innovation's, EBITDA?

Sandeep Sikka: The scheme is effective 1st April, 2018 but if we try to back it in the one-year pack. I think, we

have to work around and give that numbers to you maybe. We have done some filings with the stock exchange but that is relating to more to 17. We can get back to you on this numbers

later on maybe.

Pritesh Chedda: Any ballpark number you have in your mind?

Sandeep Sikka: I can tell you approximations. Maybe if I talk of Somany Homes and Brilloca vertical, the net

EBITDA would be in range of around 140 crores.

Pritesh Chedda: So, the residual 130 crores will go to the manufacturing?

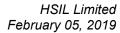
Sandeep Sikka: Yes, this is for the last year.

Pritesh Chedda: My second question is what is your CAPEX plan for FY19 absolute and FY20? What our CAPEX

spends?

Sandeep Sikka: if I say 2019, this year the spent has been higher because we had done a relining of one of the

glass furnace. Another glass furnace was repaired and then we are doing a faucet expansion,





we are doing pipes new facilities as well as for expansion of facilities. FY 2019-2020 when we see an average expenditure per year of around 150 crores for next 1 or 2 years we should be doing to either maintain or expand the capacities.

Pritesh Chedda: So, 150 crores per annum?

Sandeep Sikka: Per annum.

Pritesh Chedda: So, in this you do our depreciation any case of 120, so that much would be maintenance and

balance 30 crores will be growth CAPEX.

Sandeep Sikka: Yes.

Pritesh Chedda: And my last question is, you gave in the glass business you said that you have taken a price

increase of Rs. 2,500 to Rs. 3,000 in the quarter 3. I just want to know what does it translate

into percentage increase?

Sandeep Sikka: Around 15%.

Pritesh Chedda: 15% price hike in quarter 3 and you said some more is to be taken.

Sandeep Sikka: This is not only quarter 3. I was talking year-on-year. Whatever prices we had in the quarter

of December 2017 to December 2018. So, there is an increase of around Rs. 2,500/MT to Rs.

3,000/MT, on a base of around Rs. 20,000/MT, so it is yielding to around 15% hike.

Pritesh Chedda: And how much is due in January that you have taken?

Sandeep Sikka: Most of it is captured. Part of it is yet to be implemented. I think we have another 2%-3% hike

on an overall basis.

Moderator: Thank you. The next question is from the line of Hrudhyam Verma from Augmen Catalyst.

Please go ahead.

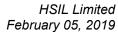
Hrudhyam Verma: I just wanted to know about the retail business that is still doing loss right now actually?

Sandeep Sikka: Yes. What do you want to know there?

Hrudhyam Verma: So, basically you mentioned that last year we have started focusing more on that and so, any

 $update \ on \ that? \ Because \ even \ in \ this \ quarter \ the \ utility \ businesses \ on \ PBIT \ levels \ it \ is \ done$

loss of 3 crores. I just wanted to know what is your view on this?



hındware

Sandeep Sikka:

We are trying to create a synergy between the consumer product business and this business. These efforts have started over last 6 months, so that one we can reduce the cost and second is if you can build the sales turnover. But there is a competition in the market especially coming from the e-commerce sides who are discounting their products in the markets. That challenge continues but we are trying to work it around, so that the loss minimization should happen and part of it is visible also like in the 9 months last year we did around 9.5 crores of EBITDA loss and this 9 months we did it around 5 crores loss only. We are working towards cost reduction, we are working towards improvising the product mix. It is not a subset of one activity, but subset of many activities. We are optimistic here also, it's not that business is bad, business is good, and revenue is good. We need to synergies few things. We have to bear this for slightly more time.

Hrudhyam Verma:

I mean, so any outlook on where can we at least break even or, so ...

Sandeep Sikka:

Difficult to comment and advice right now.

Hrudhyam Verma:

And sir, on the glass business and the packaging business basically you mentioned that even 13%-14% EBITDA margins probably this quarter end then going forward the fuel prices sustain. So, we can even go up 16%-17% EBITDA margin. So, are we on that track or has the fuel prices increased or some any other variation on that? So, can just give an outlook or view on that?

Sandeep Sikka:

It is very difficult to advice, how the fuel or the Dollar will move forward. But I can advise you that, we have reached a sort of stabilization mode on an average EBITDA of around 14% to 16% on the glass side.

Hrudhyam Verma:

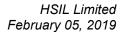
And sir, 2 book keeping questions actually. On the other income sir, what is, I mean last quarter it was 5 crores and this quarter is 1 crores so that is purely on the foreign exchange currency fluctuation or there is anything else apart from that?

Sandeep Sikka:

There are number of items, foreign exchange does not go into other income. This is more relating to the fact that if we have some insurance claim, transit insurance. As the claims are received, we accrue them or we take into the books only on realization basis. When we do such a big business there are so many transit losses. We have claim from the insurance companies. There are certain other some scraps sale happening in a particular quarter. This is purely on account of that. This is nothing on the accrual basis as such. It is more linked to the cash receipt basis.

Hrudhyam Verma:

So, like in last quarter the other income was about 5 crores. So, that was basically sort of oneoff, right? We cannot assume that it is going to be the same for the coming quarters?





Sandeep Sikka: The question is again very pinpointed to a quarter. You cannot build a model on a quarterly

basis and it is very difficult for me to advise any guidance on a quarterly basis.

Hrudhyam Verma: Absolutely and sir, this quarter, can you just give a number as to how many dealers have we

added or if any dealers that we have added or distribution network that we have expanded?

Sandeep Sikka: We have given a broad guidance over number of dealers. We keep adding dealers on the

BPD, CPD and Pipes. Giving a pinpointed number here also is more of business sensitivity. I have given a broad guidance that we have 20,000 plus retail touch points on BPD. On the consumer side, we have now more than 10,000 retail touch points and on the pipes we have

captured around 3,500 retail touch points all across India.

Hrudhyam Verma: And sir, just last question. So, any plans to incur CAPEX on the new company, in the new

company Somany Home Innovation?

Sandeep Sikka: Something which is not approved by the board. CAPEXs will happen it is not that particular

set of company will not have any CAPEX. Because I cannot comment on until and unless

something board has taken and approved it.

Moderator: That you. The next question is from the line of Pranav Mehta from Equirus Securities. Please

go ahead.

Pranav Mehta: Sir, just wanted to understand on what would be your tax rate going forward? So, this time

around tax scheme and around 34%, so can we take it as a steady state tax rate going forward

as well?

Sandeep Sikka: Taxation will always remain at around 34%-35%. Only the cash payout once we have

demerged the EBITDA will get split amongst the 3 companies. The tax shield in terms of the depreciation available for HSIL will be higher. But overall charge to the P&L will be around 34%-35% only for all the 3 set of companies even before demerger and after demerger. Cash payout will change because then you build more deferred tax liability rather than the cash

payout.

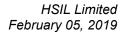
Pranav Mehta: And sir, on the other thing this EBITDA margin for FY20, so that should be around 14% for the

whole company?

Sandeep Sikka: No, overall company level the guidance has been given around 13%-14%.

Pranav Mehta: So, over next 2 years the same can be expected?

Sandeep Sikka: Yes. But this is all subject to conditions, today market conditions do change.





Moderator: That you. The next question is from the line of Vaidik Sarkar from Unifi Capital. Please go

ahead.

Vaidik Sarkar: Could you give us the sense of other supply side is facing up in the glass industry per say and

would you have a sense of how capacity utilizations are across the industry?

Sandeep Sikka: The overall capacities are still there in the market. But it is only the certain set of pockets. Our

customers are more focused on us. Few of the players in the competition are under financial stress and it is a sort of a market wherein now customer are taking their own stand of how much happy they are with each set of the suppliers. We are seeing a very positive note for us in the market right now where in our customers are happy both on quality, price as well as the supply schedule. They want to link more tonnages to us under the current circumstances.

We are seeing an upside here right now for that business.

Vaidik Sarkar: So, would you have a ballpark number of capacity utilization glass the industry as a whole?

Just a ballpark would do.

Sandeep Sikka: The overall industry if we talk it should be around 65%-70%.

Vaidik Sarkar: And how much is it for us? Just our glass basis?

Sandeep Sikka: We are around 85%-90%.

Vaidik Sarkar: Also, for FY18, I am sorry could you just help me with the breakup between sanitary ware and

faucets, the revenues between that?

Sandeep Sikka: FY18 we had around 27%-28% faucet contribution and the rest were sanitary ware and other

accessories.

Vaidik Sarkar: And I am sorry this is a repetition. With the pipes manufacturing facility will be held under

HSIL only, right after demerging? Will that go to HSIL?

Sandeep Sikka: Yes. This is all linked to the transfer pricing. The whole business will operate on arm length

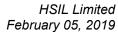
pricing transactions between HSIL and Brilloca.

Vaidik Sarkar So, HSIL retains the pipes. So, in the glass business, Sandeep, obviously should the fuel

scenario change again in the couple of quarters down the line post demerger. How does

transfer pricing work here, I mean who takes the brand if I may use that word?

Sandeep Sikka: So, you are talking glass business or you are talking ...





Vaidik Sarkar: Yes, I am talking of the glass business. Yes, I mean glass and then of course with business as

well.

Sandeep Sikka: Glass is a B2B business. It is more of a manufacturing business not a branding business. Glass

which we manufacture for our customers is not branded. Entire business is retained in HSIL only. It is only the consumer facing businesses where in Hindware brands and other brands

are there. They are dissected and brands will move into this customer focused vertical.

Vaidik Sarkar: Congrats on the breakeven consumer products. So, given that we are at breakeven, is it fair

to assume that incrementally all the additional revenue that comes in, the delta to margin will be higher? Or if I rephrase the question are we at the peak of our fixed cost as far as say

employee cost or other fixed cost heads might be concerned?

Sandeep Sikka: Difficult to answer right now. It is not a straight forward question. Because once you reach a

critical mark in a business ideally under normal conditions the gross margin should get added into the EBITDA. But definitely you will have to spend more to keep your pace continued and

especially when we do some marketing campaign in that particular quarter that expenditure

is booked. You may see in a particular quarter EBITDA is moving up and down which is more linked to the marketing campaign which we do. But other than that marketing campaign and

other events the margin game is much stabilized.

Vaidik Sarkar: And did you say your revenue segment in trading was 50% and kitchen for the 9 months over

the Q3?

Sandeep Sikka: The entire 9 months.

Vaidik Sarkar: So, balance 50 % just help us understand the presentation a bit better.

Sandeep Sikka: There is a water heater, then we have air coolers, air purifiers and water purifiers.

Vaidik Sarkar: So, the balance if you divide by 3 is that a fair assumption?

Sandeep Sikka: Not that, the water heater business and the air cooler business is much bigger as compared

to air purifier and the water purifier business. You can assume air cooler and water heater

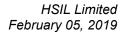
business another 30%.

Vaidik Sarkar: And in terms of growth obviously you have down well in the kitchen segment. But is the

segment growing at such rates or it is a market share shift that we managed?

Sandeep Sikka: Our strategy is very clear. We have not discounted our products. We are not in a race to gain

the market share but definitely we are working with very strong solid products. Once the





customer sees that products, he sees the value in paying the price and it is our strength, on which we are getting the market share.

Vaidik Sarkar:

Any guidance in the water heater, water coolers and the Air purifier market as far as '20 is concerned we understand the channel has reduced lot if inventory from the prior season, any guidance on this?

Sandeep Sikka:

If you talk in terms of the kitchen segment, we are right now 15% of the market. Water heater, this is around 2.8 million units per annum market which is growing at around 5% to 6%. And in just 3 years we have already crossed a volume of around 200,000 water heaters. Every business has its own subset of the growth. Every business has its own subset of market. Water purifier is a good business 3,500 crores market the growth rate of around 15% but we are just trying to get in roads into that also.

Moderator:

That you. We have a follow-on question from the line of Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar:

Yes, if you, if ones look into the core building product business of sanitary ware and faucets, the growth is only 3%. So, is not it lowest than the market rate of growth, market growth if you look at ...

Sandeep Sikka:

Yes, you can call it but when I say making, the whole plan based on a quarter performances some other times is not correct. What you have to say is that, what are the moving averages growths over a period of time. As I told that historically if you see last 3-4 years we have been growing in faucets at around 20%-25% plus CAGR and sanitary ware has been low at around 8% to 10% which is there. And this quarter it has dipped but very difficult to answer your question why it is dipped for a particular quarter or why it was this thing. Generally our guidance from a company side is more on medium range. There are given guidance that company is confident that we should have around 8% to 10% growth on both sanitary ware and faucet together for times to come, shorter times to come.

Kaushik Poddar:

And what is your market share in sanitary ware and faucets?

Sandeep Sikka:

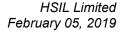
If you see the entire manufacturing community which is there, top 3 players if you say we are still 33%-34% plus on the manufacturing units which are the 3 core manufacturers in the Indian market.

Kaushik Poddar:

So, the top 3 are Jaquar, Cera and Hindware?

Sandeep Sikka:

No, We ourselves, Cera and Parryware.





Kaushik Poddar: Jaquar is not that bigger, sir?

Sandeep Sikka: We do not know their figure right now because they are not listed. But I cannot comment

right now on the numbers of theirs.

Kaushik Poddar: And when you are talking of 20% growth topline, you are talking of the growth from this year

and next year or next year, I mean 2019-2020-2021 as well?

Sandeep Sikka: When this guidance is given this is for next 12 to 18 months that based on the business

scenarios today, we feel that we should be able to clock around 20% sales growth and both in

terms of revenues and also in terms of EBITDAs which we have achieved this year.

Kaushik Poddar: This is in a timeframe of 12 to 18 months that you are saying?

Sandeep Sikka: 12 to 18 months, but on a per annum basis, definitely.

Kaushik Poddar: On what basis?

Sandeep Sikka: Per annum basis.

Moderator: Thank you. We have a follow-on question from the line of Sriram R from Sundaram Mutual

Fund. Please go ahead.

Sriram R: Sir, what was our revenue for the quarter for PET business and the corresponding EBIT, if you

could give the number for 9 months also it will be helpful.

Sandeep Sikka: Generally we disclose the whole composite numbers of the packaging division. Difficult for us

to give a segment-by-segment numbers because that will be against the disclosures which we

have right now.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over

to the management for closing comments.

Sandeep Sikka: I think good, very good healthy set of questions from the entire investment community and

thank you all for the same. Some of the questions, I could not answer because either due to the compliances or under the limitations of the period which we are talking here. But guidance, we have very well communicated. We see a good business growing based on the current market conditions going from here. And we are fairly optimistic on this. Thank all of

you for joining us for this conference call.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services that

concludes this conference. Thank you for joining us, you may now disconnect your lines.