"HSIL Limited Q2 FY2019 Results Conference Call"

November 02, 2018

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Moderator: Ladies and gentlemen welcome to the Q2 FY2019 results call of HSIL Limited hosted by Emkay Global Financial Services. We have with us today Mr. Sandeep Sikka - CFO, Mr. R.B. Kabra - President Building Products Division and Mr. Naveen Malik – Vice President 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, you may 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 Sanjeev Singh of Emkay Global. Thank you and over to you Sir!

Sanjeev Singh: Good afternoon everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now hand over the call to the management for opening remarks, over to you Sir.

Sandeep Sikka: Mr. Naveen Malik will give you opening remarks.

Naveen Malik: 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 30th September 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 half year ended 30th September 2017 and year ended 31st March 2018 were reported inclusive of Excise Duty whereas revenue for the quarter ended 30th September 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 half year ended 30th September 2018 achieved revenue of around Rs.623 crore and Rs.1,165 crore respectively. After adjusting for GST impact as explained in note 5, there is a revenue growth of around 17% for quarter and 15% for half year.

- The operating profit i.e. EBITDA for the quarter and half year ended 30th September 2018 is around Rs.56 crore and Rs.102 crore respectively as compared to previous year corresponding figure of around Rs.74 crore and Rs.128 crore.
- Company has availed ECBs and also few buyers' credit and on account of rupee depreciation by around 5.8% in second quarter and 11.5% for half year, foreign exchange loss of Rs.12.25 crore and Rs.23.85 crore has been debited to P&L at EBIDTA level for quarter and half year respectively against previous year corresponding figure of around Rs.0.19 crore and gain of 0.83 crore.
- If we adjust the impact of foreign exchange fluctuation gain or loss in EBIDTA, then EBIDTA for the quarter and half year ended 30th September 2018 will be Rs.69 crore and Rs.126 crore as compared to previous year corresponding figure of around Rs.74 crore and Rs.127 crore. Part of these foreign currency exposures were hedged and MTM gain on these derivative transaction during the quarter and half year is Rs.3.19 crore and Rs.7.91 crore vs. the previous year corresponding period loss of Rs.1.80 crore and Rs.4 crore. These MTM gain/losses have been adjusted in Finance cost as per applicable accounting standard.
- Accordingly with adjustment of MTM gain in finance cost, the finance cost for the quarter and half year would be Rs.19.59 crore and Rs.35.52 crore vs the previous year corresponding figure of Rs.10.36 crore and Rs.18.61 crore. You may refer note 4 of Published financials for further details.

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

A. **Building products division**:

- Building products division, for the quarter and half year ended 30th September 2018 achieved revenue of around Rs.300 crore and Rs.539 crore respectively, which after adjusting the excise and GST impact has shown yoy growth of around 16% and 13%.
- Commercial production at CPVC, UPVC and SWR Pipes and fittings facility commenced on 9th August 2018 and achieved Sales of Rs.23.46 crore for quarter and half year ended 30th September 2018. Products have been well received in the market. If we include pre COD sale of Rs.47.26 crore, then total sale of Rs.70.7 crore is achieved during first half year ended 30th September 2018.
- EBIT of Building products division includes foreign exchange loss of Rs.4.90 crore for the quarter and Rs.9.77 crore for half year as compared to previous year corresponding gain of Rs.0.40 crore and Rs.0.78 crore.
- It also includes EBIT loss, on recently launched CPVC, UPVC, SWR Pipes and fittings business, of Rs.6.49 crore for the quarter and Rs.10.13 crore for half year as compared to corresponding previous year loss of Rs.0.45 crore and Rs.0.95 crore.

- If we adjust the effect of Foreign exchange gain or loss and EBIT loss on Pipes business, the EBIT of the Building products division for quarter and half year is Rs.48.6 crore and Rs.86.7 crore as compared to previous year figure of Rs.49.7 crore and Rs.80.9 crore.

B. Next we will talk about the **Packaging products division.**

- Packaging products division for the quarter and half year ended 30th September 2018 achieved revenue of around Rs.223 crore and Rs.451 crore respectively after adjusting for excise and GST impact, there is revenue growth of around 11% and 13% signifying pickup in sales growth.
- Packaging Product Division had, during the first half of current financial year, initiated certain activities envisaging rebuilding of a furnace IV & overhauling of another furnace V at its Bhongir plant resulting in sub-optimal production, lower efficiencies and higher costs. Further, the operational costs have also been impacted by increase in global fuel prices.
- EBIT for the packaging products division for the quarter and half year ended 30th September 2018 is around Rs.6 crore negative and Rs.8 crore negative as compared to previous year corresponding figure of around Rs.15 crore and Rs.31.36 crore.
- During the quarter and half year, there is negative foreign exchange fluctuation impact of Rs.6.27 crore and Rs.11.82 crore as compared to corresponding previous period loss of Rs.0.57 crore and gain of Rs.0.37 crore.
- If we remove impact of foreign exchange fluctuation gain or loss in EBIT, then EBIT for the quarter and half year ended 30th September 2018 will be around Rs.0.22 crore and Rs.3.77 crore as compared to previous year corresponding figure of around Rs.15.61 crore and Rs.30.99 crore mainly due to higher cost of raw material and fuel and higher fuel consumption.
- We have received price hike from customers and its impact on sales realisation is expected in coming quarters. Further we will be approaching customers for another price hike.
- Factors like completion of repair & rebuilt in furnaces enabling optimal production with better fuel efficiencies, improving demand scenario and price hike are expected to improve the profitability of Packaging Product Division in coming quarters.

C. **Consumer products division** for the quarter and half year ended 30th September 2018 continued its upward growth and achieved revenue of around Rs.75 crore and Rs.130 crore representing growth of 40% and 39% over previous year corresponding figure. For the quarter ended 30th September 2018, the consumer products division has become EBIT positive and recorded EBIT of 0.51 crore against EBIT loss of Rs.4.32 crore in corresponding quarter. During half year ended 30th September 2018 EBIT loss reduced to Rs.5.8 crore as compared to previous year corresponding figure of Rs.13.63 crore negative. We have successfully positioned our consumer products specially Kitchen chimney, Water Heater and Air Cooler in the market. Water purifier has also picked momentum and is gaining market share.

D. **The Retail division** for the quarter and half year ended 30th September 2018 achieved revenue of around Rs.25.49 crore and Rs.47 crore against previous year corresponding figure of Rs.25.08 crore and Rs.49 crore. EBIT loss for the Retail division for the quarter and half year ended 30th September 2018 is around Rs.2.59 crore negative and Rs.3.98 crore negative as compared to previous year corresponding figure of around Rs.3.68 crore negative and Rs.6.52 crore negative.

So, for the quarter and half year ended 30th September, 2018 overall company PBT is around Rs.6 crore and Rs.9 crore as compared to previous year figure of around Rs.35 crore and Rs.52 crore. Profit after tax for the quarter and half year ended 30th September, 2018 is around Rs.5 crore and Rs.7 crore as compared to previous year corresponding figure of Rs.23 crore and Rs.35 crore.

The total net bank debt of the company as on 30th September 2018 is around Rs.1173 crore with long term debt of Rs.686 crore and short term debt of Rs.487 crore with overall loan funding cost at 7.20%.

Just to summarise again, that during the second quarter and half year, the net PBT has been impacted by the following factors:

1. Sudden rupee depreciation on account of foreign currency exposure part of which was hedged.
2. Higher input prices of fuel and raw material in packaging products division and Building Products division and sub optimal production at glass furnaces under refurbishment.

Now we can open the call for the question and answer sessions.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Gautam Bahal from Mauryan Capital. Please go ahead.

Gautam Bahal: Thanks for taking my question and for the detailed explanation on this quarter. Sir can you just run us through the guidance for several different divisions for FY 2018-19 and FY 2019-20. I am asking because there have been some media articles recently with some articles talking about different numbers, if you could just sort of summarize that for us?

Sandeep Sikka: We are having four different divisions. In terms of building products, the 3 key businesses are sanitaryware wherein we are the largest in India, faucets where we are almost number 2 and now very recently we started the pipes business. In sanitaryware, we expect going forward around 8% to 10% growth which should be there in the balance year and next year we see slightly better 10% to 12% growth. Historically on the faucets side, we have grown at around 20% to 25% and we expect that growth should continue in future. Now the base has also expanded, we touched turnover on faucets of around Rs.300 crore in FY 2017-18.

Pipe is a new segment as already explained by Naveen, so this is a new initiative. We have started the plant in the month of March and in the first six months total sales which includes sales before the commercial operation date is Rs.70.7 crore, we expect this year we should close above Rs.150 crore to Rs.180 crores and almost growth of 50% to 80% in next year over the current year that means next year we should be touching somewhere on Rs.250 crore to Rs.300 crore of turnover that is broad guidance, but this is all subject to the market conditions. As far as consumer products are concerned, we have demonstrated good growth number, we have a good base. Last year we did turnover of Rs.208 crore and this year we have given market guidance on various investor’s calls that the growth momentum should maintain ranging between 45% to 55% over the last year and we have also given guidance that the business should turn positive; this quarter actually the business is positive both on EBITDA and EBIT levels. This is again subject to certain media spends or branding exercises which generally are costly in nature, we have another two quarters, but directionality of the business on the consumer side is pretty good. We have previously explained that the gross margins in our case ranges more than 35%, pretty well on the gross margins. Since this is a separate vertical within the organization, there is a higher vertical cost both in terms of warehousing as well as overall go-to market cost including the sales and marketing team cost.

As far as packaging product is concerned, glass was a matter of concern for the first six months. We had discussed about this on the last call, especially Q1 FY 2018-19 was impacted by refurbishment of part of furnace wherein we have to rebuild the regenerator in the working furnaces, which resulted in high fuel consumption and that continued during Q2 also. Now it is almost done, furnaces are doing fine and running. During Q2 we have to rebuild one of the furnace that part is also complete. Overall operations of the glass have been impacted by one or two key factors, one is higher fuel consumption during this entire refurbishment or rebuild exercise, second is direct impact of fuel price which is there on glass because the input cost of fuel has also increased and also the rupee depreciation relating to the foreign exchange loans taken for the businesses. This part of foreign exchange loss is notional in nature because we have hedged the currencies especially on the long-term side for which MTM gain is in the interest component side.

From Q3 and Q4 we expect to see good numbers on the glass side. We see glass coming back with our EBITDA margin ranging between 14% to 16% going forward with all furnaces coming back and we have also negotiated price hike with customer and other round of price hike is already on active discussion with the customer. We are able to pass on this hike because market also understands that there is substantial rupee depreciation and fuel prices have also gone up substantially. That is broader guidance and we expect that we should have overall growth in glass ranging between 10% to 15% on the sale side because we have started one furnace, which was shutdown in August 2013, in the month of January. We are building up the volumes and building the value as well on the glass side.

Gautam Bahal: On the glass side, the price hikes have been sort of well received by the customers, you have that price power at the moment?

Sandeep Sikka: Yes, we have that pricing power as customer also understand that this is logical price hike because fuel price hike and rupee depreciation both have come up together and if you will see the combined effect of it, it is very difficult for any glass manufacturer to live without passing on that, so they have well appreciated the price hike.

R.B. Kabra: I will add one thing here is that when we talk of price increase, we talk of what we have got. In the B2B business, as you all know when we say that price increase has been accepted, we mention this only once the customer has accepted the kind of price increase after the negotiation. We ask for X percentage, they start from Y percentage and then we negotiate and agree for a certain percentage, then only we say that the price increase has been received.

Gautam Bahal: Okay. So this 14% to 15% EBITDA margin should reflect in Q3 itself?

Sandeep Sikka: A part at Q3 and part at Q4 I think Q4 will be the best.

R.B. Kabra: Basically yes, what you say is correct that Q3 should be reflective of this but depending on oil prices, if again oil prices suddenly spurt as power and fuel is very large part of cost of production for the glass business. If the oil prices remain at this level, then yes, what you say is correct that Q3 should see the EBITDA margin coming back at 14% to 15% level.

Gautam Bahal: Okay and Sir any update on the demerger timeline please?

Sandeep Sikka: We had meeting of equity shareholders, secured and unsecured creditors on September 29 and now the second petition which is the part of the process has already been filed with NCLT. It is now court process which ideally should be completed within 45 to 60 days time. We expect the approval should be in place by end December or first half of January.

Gautam Bahal: Okay and listing should be done by sort of end of January or February?

Sandeep Sikka: Listing will take another 45 to 60 days because for Somany Home Innovation Ltd, we will have to file the revised information memorandum, and today we have been advised by lawyers that it may take 45 to 60 days.

Gautam Bahal: Okay and last question from my side, what is the debt split post demerger right now?

Sandeep Sikka: If you understand, in demerger main chunk of fixed assets which are the manufacturing units will be retained in HSIL, so approximately 90% of the long-term debt will remain in HSIL. Working capital will get divided amongst HSIL and rest of the two companies based on the drawing power or working capital usage of each company. If we split the working capital debt, it will be around 50% to 55% in HSIL and balance between SHIL and its subsidiary Brilloca.

Gautam Bahal: Thank you very much.

Moderator: Thank you. Next question is in the line of Nehal Shah from ICICI Securities. Please go ahead.

Nehal Shah: Thanks for the opportunity. Sir couple of questions one of them is now slowly and steadily we have found our feet into the newer segment where we have almost achieved breakeven like in consumer products. What is our thought process with respect to entering into other new segment, are we looking at the other new segments at this point of time or we are ready to wait and probably look at the newer segments for next two to three years and then take call for entering into the other segments?

Sandeep Sikka: As far as your first question is concerned on the consumer product side, I think we have done pretty well. If you see 2 or 3 key highlights are that we are now almost #2 player on the kitchen portion and also in chimneys, last year we clocked a turnover of around Rs.105 crore. One good part of the whole business is that the brand **Hindware** has been accepted by the masses outside the bathrooms and thus this is one very key element of future level of growth of Hindware brand into the other segments. As far as consumer products are concerned, right now we are consolidating with 5 key businesses. We are evaluating 1 or 2 businesses but not yet approved by the board. Focus is on these 5 businesses as they still has lot of opportunity in the market and may be 1 or 2 new businesses on consumer side may come up in next 1 year or so. As far as the building material is concerned, the focus is right now on sanitaryware, faucets & pipes and apart from this nothing else has been approved by the board as on date. One thing which we included was the hardware fittings wherein kitchen is one big opportunity wherein we have products like Hettich & Blum and we saw an opportunity and board in the last board meeting has approved introduction of one new business which is kitchen fittings & hardware. We will not manufacture this and have collaborated through a marketing arrangement with an Italian Company FGV. FGV is approximately 240 million USD company and will supply material to us and we will sell through our distribution. This will be further value addition to our distribution network.

Nehal Shah: Sir any intention to get back into the tiles?

Sandeep Sikka: We are very actively evaluating this and various options are being discussed internally and we will give an update when something concrete is there.

Nehal Shah: Sir my last question is, if you remember a year back post the announcement of the demerger scheme, you said that while you would be awaiting the NCLT approval for the proposed demerger, you will probably be scouting for a strategic investor for Brilloca for the growth capital, but nothing seem to emerge on that front so any take on that side?

Sandeep Sikka: I cannot comment on it right now, but let the demerger happen and the directionality of the discussions are the same that is what I can comment on.

Nehal Shah: So you are looking at that as well?

Sandeep Sikka: Yes, either strategic or some private equity whatever it is so that we get a good growth capital, but this is again subject to a number of factors and evaluations.

Nehal Shah: The growth capital is largely for Brand spends or for working capital or it is for entering into a newer segment?

Sandeep Sikka: It will be more focused on new businesses on the building material side under the Hindware brand.

Nehal Shah: Thanks.

Moderator: Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisor. Please go ahead.

Dixit Doshi: Thank you for the opportunity. Sir firstly one clarification when you say that the second petition filed in NCLT and they will take some 45 to 60 days and after that you said listing will take another 45-60 days, but we can do the ex date once we receive the approval from NCLT right?

Sandeep Sikka: The day we receive approvals from NCLT and hold a board meeting it becomes effective, after that we have to set a record date for giving corporate action and transferring the shares to the respective shareholders account. Once the record date is done then the shares would be transferred, let us say anybody holding 100 shares of HSIL, those 100 shares of HSIL will remain there but shareholder will get an additional 100 shares of SHIL which is

Somany Home Innovations Limited, so that corporate action will happen. For listing of SHIL shares we have to do the information memorandum and file with the exchanges.

Dixit Doshi: Once we receive this approval. Secondly Sir you did give us the breakup of sales from pipes division, can you give the same for Caps and closures division in the packaging segment?

Sandeep Sikka: Caps and closures business is right now not making profits and for the full half year we did sales of around Rs.11 crore.

Dixit Doshi: Rs.11 crore and how much would be loss?

Sandeep Sikka: That we are not giving separately because we are classifying Caps and closures in the packaging product division.

Dixit Doshi: Okay and Sir in terms of packaging division you mentioned that we have taken one price hike and also looking for another one, Sir just one question in terms of industry, so the largest player is somewhat under stress so is there any volume growth you see that can be higher.

Sandeep Sikka: The largest player, I understand as per the public knowledge is concerned is already under default with lenders and as per our knowledge they are having some sort of resolution mechanism with lenders. But definitely our story is getting much stronger because all the debts which we contracted for packaging division for last expansion plan is almost near completion. All the debt which is in our balance sheet is fairly long term debt and has been contracted for further capacity expansion, not on the packaging side but on project side like pipes, caps and closures, sanitaryware, faucets. Our position is much stronger as compared to the leader in the industry and customer is giving advantage to us in terms of building of volumes with us and we expect to gain more market share over a period of time.

Dixit Doshi: Okay and just last question in terms of retail business, so I mean what is our thought process for retail business, we are not growing it and we are also not shutting it, so how we are planning to break it even and what is the future there?

Sandeep Sikka: I totally appreciate your point, we do around Rs.96 crore of business in the retail division annually. Losses have been cut down substantially in this half year; EBITDA loss in the first half is around Rs.2.5 crore against loss of Rs.5 crore in the corresponding period last year. We are trying to work around, but there is definitely high pricing picture because of E-commerce business wherein major E-commerce companies are selling furniture online and are discounting their products very heavily. We are working on various options, give us some more time to have best step on this business.

Dixit Doshi: But are you looking to turn it around by cost minimization and everything or we are looking to expand this business even more and get more scale?

Sandeep Sikka: Our focus is on leveraging E-commerce model, because we have a very solid retail model. Many of the E commerce companies are now moving towards the retail side because physical presence in furniture is very important part of the game. We are also trying to move towards E-commerce part so that we can increase the volume and also gross margin, underlying fixed costs will almost remain there and that will also help in making the business breakeven in the first case. That is the broader strategy which we are trying to adopt over the next 3 to 6 months.

Dixit Doshi: Okay and just one last question, you gave breakup for the debt post demerger. Can you give the rough estimate of what would be the networth for SHIL post demerger approximately?

Sandeep Sikka: There are two companies SHIL and Brilloca, SHIL will have networth of around Rs.60 to 70 crore and Brilloca another Rs.120 to 130 crore and this is a broad indicator.

Dixit Doshi: So consolidated would be around Rs.250 crore?

Sandeep Sikka: Yes, these are broad numbers, because the final decision on this will be taken by the broad of directors post the NCLT approval.

Dixit Doshi: Thank you.

Moderator: Thank you. The next question is from the line of Jatin Nayak from ICICI Prudential Mutual Fund. Please go ahead.

Jatin Nayak: Sir how do you see the competition right now as you know tiles player having entered this segment, what would be your assessment about the competition and their product quality also?

R.B. Kabra: Basically you talk of the tile players yes, you are correct that most of them have tried to enter the sanitaryware and faucets business and the reason is very simple that they see the greater margins in this business in comparison to tiles. I think building revenues of anywhere below Rs.100 crore in any product segment is easier, but beyond Rs.100 crore they have to really create certain kind of infrastructure. Unfortunately for tile people they do not require any service of the tiles because once put onto the floor or on to the wall, it is fit & forget. Whereas in sanitaryware, there is a lot of moving parts for flushing the water and there are rubber parts, plastic parts, and the temperature variation within the country from 4 degree to 45 degree, these parts become brittle after some period of time and they require replacement and for that you need service. We are the largest manufacturer of sanitaryware and we have created a very solid infrastructure for servicing and timely service is very, very crucial for sanitaryware because there is a time that you do not get any water, if there is a blockage in the inlet water and then you cannot flush. On the other side if there is continuous leakage and water is not closing, then the overhead tank will be empty and you do not have water for any other purpose. So timely repair of the product is very important and we have more than 400 plumbers today all across the country. Supporting that kind of infrastructure when you want to really go big, then it has cost. They will have to see how they go about and what will they do, again the product acceptability. Customers for tile and sanitaryware is more or less the same and if he builds house or renovates the house or renovates the bathroom, the dealers are common, dealer selling sanitaryware will be selling tile and dealer selling tile will be selling sanitaryware except few showrooms which specialize only in tiles. Yes they have the distribution, so they can build some kind of turnover that is true, but going forward, I do not think they can really become very big in the product segment.

Jatin Nayak: Also Sir the lower margin in your building products divisions this quarter is it because of some losses at EBITDA level in the pipe segment?

Sandeep Sikka: Margins shrinkage on BPD is because there is one element of foreign exchange fluctuation. You need to understand what happens in the accounting standard, let us say we have taken a \$20 million ECB from State Bank of India which is eight year ECB, 2 years have gone past and the average disbursement rate was around 67.50, when rupee came to a level of around 64.50, we did a call spread hedge covering from Rs.70 to Rs.90 on this, so when rupee had rolled back from 64.50 to a level of 72.50 in the first half that is rupee depreciation of almost Rs.8. For H1 FY 2018-19, we lost around Rs.24 crore as a notional foreign exchange loss on this ECB loan. Why I am saying it is notional because it is not settled today and as per the accounting standard this is charged to other expenses. Since we had the hedge on this and that hedge appreciation during the same period is somewhere around Rs.7.9 crore because still six years is left out, that is why you know this delta of additional Rs.16 crore is reflecting on the bottomline for this ECB loan. It is not that the entire money has been used in BPD, money has been used across the businesses. Foreign exchange is one key element and secondly we have been saying there is a negative element of pipe also which is there but that is very marginal and is not big.

Jatin Nayak: If you exclude the hedging cost what must be the margins at EBITDA level in the BPD segment?

Sandeep Sikka: BPD excluding pipes would be somewhere around 20.8% for H1 FY 2018-19.

Jatin Nayak: Sir one more question, any plans of entering into the MDF segment?

Sandeep Sikka: I cannot comment on anything which is not approved by the board.

Jatin Nayak: Sir, last question from my side. Can you give me the breakup of your capital employed, so including your operating assets and your working capital in each of the segment pre-demerger. In the BPD, packaging and the other segment what would be the rough split of your capital employed?

R.B. Kabra: It is already there in the printed results.

Sandeep Sikka: If you see the results, there is already stated that segmental breakup.

Jatin Nayak: So even debt attributed in the BPD?

Sandeep Sikka: Yes.

Jatin Nayak: I will just have look at it. Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Shriram R from Sundaram Mutual Fund. Please go head.

Shriram R: Thank you for the opportunity Sir. I joined the call late so pardon me if I am asking the same question. Basically regarding your glassware division, I think if I remember right we were supposed to open 3 furnaces and that is what in place for the H2 and so what would be the kind of utilization that we can expect in the next 6 months and how do your margins shape up? I just want to understand what exactly is the problem in glassware, is it only the closure or the price increase which is not being passed on that is on the glassware front? Second on the building material segment, if I exclude your pipe business, the like-to-like growth is 7%, correct me if I am wrong, but I just subtracted the revenue of pipes, so if this is the case we are doing single digit, so how the trajectory would be because more and more players today are entering the sanitaryware space and hence we have feeling the pressure and some comments on your Alchymi brands how they are doing, how is the focus going to be? Thank you Sir.

R.B. Kabra: For glass, just to give the background we had shut one furnace around 4.5 years ago because there was excessive capacity. That furnace had a capacity of 300 tons per day and that furnace was lit up in the last quarter of financial year 2017-18. In Q2 the two large furnaces of 475 tons each, one was shut for the whole quarter for realigning of the refractory and one was shut for few days for repairing the regenerator so this quarter the production capacity has been much lower because one furnace of 475 ton was out of production for whole of the quarter and one furnace was out of production for few weeks. What happens is that when the furnace is required to be repaired and we continue to use it then the fuel consumption disproportionately goes up. So two reasons, #1 because of the furnaces requiring maintenance and we kept running it for sometime because the other furnace was under shutdown, which has now been lit up again. So currently all 4 furnaces are working, but the quarter had the impact of higher fuel consumption and higher fuel prices both, that has affected the results badly. But now as we have just mentioned that we have got one price increase from the customers which will be now effective and you will see the full impact in Q3. We have again approached to the customers for another price increase because of the rupee depreciation, because one of the raw material soda ash is imported and also because of the fuel prices have again gone up, so that is still in consideration, but the first price increase impact and the extra cost of the fuel on the furnaces, which were there in this quarter, will not be there. Going forward, we expect EBITDA levels coming back in Q3 to 14% to 15% and in Q4 if we are able to get the another price increase then the level of 17% to 18% which is standard EBITDA, which were being talking about the glass business.

Shriram R: Sir 14% to 15% EBITDA on the glassware business for Q3 itself.

R.B. Kabra: Yes.

Shriram R: Sir and then on the other building material?

R.B. Kabra: Building material you said that like-to-like growth is 8%, this is correct and yes there is some impact number one is that the real estate market is still very subdued, it is not reviving. What people normally talk of the affordable housing and Swachh Bharat, but we are not in that segment to a large extent. Swachh Bharat as we have been telling we are not able to supply anything except through some corporates which build toilets under the CSR scheme and even for the affordable housing the kind of sanitaryware used is largely from the unorganised sector but the revival into the large sector and the large builder is yet to be seen and yes the new entrants are also gaining some kind of market share, which is temporarily at least, impacting our share in the market.

Shriram R: Sir how about your new ventures like Alchymi, how it is taking shape and is there a possibility that the premium or the super premium or the luxury space being occupied by a lot of players because everybody wants to capture the pie. How is it we are battling back in the competition is like as you are talking about the scale, which cannot be achieved, so can you just elaborate why is it possible by having the same dealership and the channel why cannot the tile player gather steam and capture the market, I just want your thoughts on why it is not if you could elaborate it will be helpful, I could not understand?

R.B. Kabra: We talk of premiumization of the market, yes that has been happening for last few years. If I take you back 8 to 9 years we had only one brand called Hindware, then we upgraded to Hindware Art and then we upgraded to Hindware Italian Collection and then few years ago we added a brand Queo which sells only the imported products and largely imported from the European countries because people wanted more high premium products, aesthetically better looking but the volumes are so less in that segment that our large manufacturing lines cannot support that kind of production though we can make if the volume increases our plants are capable of making all these products, but small runs are not possible, small runs are not economically viable in the plant level, so we are importing and selling. What was happening is that Queo was really, really super premium luxury segment and people had some reservation after a certain price point for per bathroom to pay for the Hindware brand, so there was a gap in between what people wanted to pay for Hindware, but they were not willing to pay kind of high price for the Queo, so strategically we launched this Alchymi brand last year and the reception has been reasonably good. We are launching more new and new products into this brand and we are quite hopeful that in 2 to 3 year's time it should establish itself into the particular segment and as we have been mentioning that the ratio of the premium products in sanitaryware is around 53% to 54% in our sale, but still if you talk volumes, the large volume is from the middle segment only. If you talk of value yes 50% plus would be premium, but the volumes are much larger in terms of middle segment.

Shriram R: Fine Sir. Sir just one last book keeping question what is the depreciation for the quarter for both the building material and the glassware divisions?

Sandeep Sikka: For building material excluding pipes for Q2 FY 2018-19 is Rs.9.5 crore and for the entire packaging product division is Rs.19.5 crore.

Shriram R: Rs.9.5 crore and Rs.19.5 crore right Sir. Sir if you could give the breakup in the presentation or something it will be helpful EBITDA wise breakup it will be helpful Sir.

R.B.Kabra: We do not report product wise EBITDA, we are reporting only EBIT segment wise. We have many products under each category, it will very difficult to give product wise EBITDA.

Shriram R: Okay Sir, no problem, thank you so much.

Moderator: Thank you. Next question is from the line of Jaspreet Singh from Systematix. Please go ahead.

Jaspreet Singh: Good evening Sir. Thanks for the opportunity. Just wanted to clarify, did you just say, we are getting back to tiles, sorry I missed that part?

Sandeep Sikka: We are evaluating various options and what are the opportunities available on the tile side, if something works around concrete then we will inform accordingly.

Jaspreet Singh: Sir I did not attend the last 2 calls so what is exactly changing in tiles because we have exited about a year back or so and we had the reasons why we exited that space?

R.B. Kabra: When we exited, Jaspreet you know why we exited.

Jaspreet Singh: Right Sir and I mean the things have only worsened since then so I just wondering what is exciting us to enter this segment.

R.B. Kabra: Do I need to repeat that? I can tell you very briefly that we entered only into a very, very premium segment of tiles by importing it and since we are in the sanitaryware business where we are accustomed to the higher EBITDA margins. We thought that we will get higher EBITA margins or the gross margins by selling high end imported tiles and which was true when we started selling it but unfortunately in the premium segment, the design obsolescence was very high. Suppose our purchaser liked one design and we imported few containers but the customers in India did not like it, so when we started writing off inventory we realized that we were not making any money, that was the reason for exiting that business that if we are not making money at the end of the day, though originally the gross margins looks very attractive, but at the end of the day when you write off the stuck up inventory and you are not making any money, there was no point. But now today when Mr.Sikka says that we are evaluating that whether we can do this today it is not sure that we will do it, but the market size of tile is very large. The sanitaryware market is around Rs.4,500 crore. Tile now people say somewhere is around Rs.30,000 crore, some say Rs.34,000 crore and some even say Rs.40,000 crore and in sanitaryware we are already the largest as you know and there is so much we can grow into that market, so for the company’s growth we keep on evaluating what we can do. Since the tile is market is very large and even if the market grow by 10% on Rs.40,000 crore you are actually adding one sanitaryware market every year, so we are just looking what we can do and whether there is a possibility and in what area whether GVT, whether wall tile whether any other tiles. We are internally discussing and nothing is on the table as such that we are doing it tomorrow morning.

Jaspreet Singh: Just second on this timeline Mr. Sikka that you mentioned on the demerger I believe you said end January this company should go ex and then you know you will file the memorandum for the new company, so that new listing as per my observation and experience with the other companies we have gone through the similar process is that new company gets listed only between 90 and 120 days, but that you mentioning about 45 to 60 days something, so am I missing something or it is the process different in our case?

Sandeep Sikka: No process remains the same. What we have been advised is by our lawyers, investment banker and merchant banker who will work with us on the need, we are just trying to keep everything ready for that. As soon as order will come, the idea is to file as soon as possible immediately after the demerger.

Jaspreet Singh: Just lastly, Mr. Kabra if you could just in terms of 2 things this is more from somebody who is trying to look at HSIL today in terms of the value because there is a fair amount of value especially because of the demerger that we are going through, so there are 2 things in which though Mr. Sikka has commented on the strategic investor that could come in the building products space, so if you could just throw some more light on what exactly that process could come over, so as to unlock value and some more clarity on the retail because that has been on losses for many years now and we do not have any visibility as to when exactly can it turn around as well and we still continue to back it, so if you would just highlight your reason only still very helpful?

Sandeep Sikka: Until the board confirm something it is very difficult for a company to confirm anything relating to the future infusion of equity. I think the guidance which we have given last time that we are actively discussing with people in the market as regard the equity infusion post demerger, but this is subject to a number of factors like market conditions, our performance, but we definitely feel that post demerger unlocking of value should happen. If you see our valuations are fairly subdued because many investors they had their set of questions relating to packaging product being part of a consumer company. This demerger will ideally help segregation of the thoughts, the investors were not interested in the packaging product and they can focus purely on the other side which is Somany Home Innovation Limited and Brilloca, that is the pure consumer facing organization. That is what I can talk about right now and once anything is firm, anything approved by the board, we will appropriately announced to all the stake holders.

Jaspreet Singh: Okay. So I mean that is possibly the only immediate thing that could unlock value post the demerger or is there anything else that could possibly be done. I am just talking about in terms of anybody looking at our company from an investment perspective. Are there anything that could possibly be done or this is the only thing, which could be done only after January?

Sandeep Sikka: Jaspreet as far as unlocking of value is concerned, it should also naturally happen because equity infusion may be one part of the game but when you segregate the financial post demerger, you will appreciate you know how the value should get unlocked on its own.

Jaspreet Singh: There has been a deterioration in the P&L but that is the something you know the lot of external factors are involved and if we just help give some more light on the retail piece and that has been something because we have been falling for years, but there is no stopping in terms of bleeding, so still how long would you continue to back this?

Sandeep Sikka: We are right now trying to see that how we can improve the business, how we can increase the volume and sale of the business and we have worked on reducing the cost in the last one to one and a half years and part of that outcome can be seen in the numbers. Quantum of losses in the first half of last financial year was around Rs.5 crore has been reduced to almost half in the first half of this financial year. We are also trying to add value by selling more and more products on the E-commerce platform, so that we have a double edge advantage both on the retail side and also building up the volumes on the E commerce. E commerce model will be further value addition because all the gross margin are in the E commerce and it will get it into the EBITDA. We are trying to see how the business can be reworked, we have Rs.96 crore of sales coming from the business, which is good sale and how we can leverage on it, broadly that is what I can say right now on this.

Jaspreet Singh: Thank you so much for the detail explanation and all the best.

Moderator: Thank you.

Sandeep Sikka: I think majority of the questions have been asked by the investors and stakeholders. As we have given the guidance to market that this financial year and part of next financial year is year of consolidation. Company has taken various initiatives around three years back, consumer product was one, pipe was second, third was the caps and closure and then was the expansion of the sanitaryware and right now we are doing the faucet expansion because we are reaching the capacity utilization. A lot of debt has been contracted but this is fairly long-term debt. Our cash flows are pretty comfortable. The repayments this year is around Rs.70 crore, next year we have repayment ranging from Rs.15 crore to Rs.20 crore and a year ahead is around Rs.60 crore to Rs.70 crore. Fair amount of internal accruals will re-flow back into system for reducing the debt and outcome of the businesses. When we started around three years back, there was heavy criticism amongst major investment community that this is a matter of a wrong capital allocation into the new businesses, but I think many investors now appreciate all the initiatives which the company had taken especially when you see acceptance of a brand Hindware inside the kitchens and the success of the consumer product wherein they have demonstrated good volumes and growth. The set-up of pipe plant obviously got slightly late, but the turnover which we are building up, the distribution expansion which we are doing on the pipes and the way the product has been accepted by the market, I think it has to be appreciated and we feel that business will build up substantial turnover in the profitability as we move forward. So lot of investment has been made over the last 2 to 3 years. I think investors have been very patient over the period of time. This year and may be early part of next year you will see transformations happening, the building of turnover coming up and also the profitability improving. That is the broader guidance which we have and I thank all the investors and I thank all the participants here for coming and joining us and asking questions. We will be very happy to answer any further questions you have. Thank you very much.

Moderator: Thank you Sir. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes today's conference. Thank you for joining us. You may now disconnect your lines.