“HSIL Limited Q1 FY2017 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY 2017 Results Call of HSIL Limited, hosted by Emkay Global Financial Services. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Dhaval Mehta, from Emkay Global Financial Services. Thank you and over to you Sir!

Dhaval Mehta: Thanks. Good evening everyone and welcome you all for Q1 FY 2017 Earnings Call of HSIL. We would like to thank the management for giving Emkay the opportunity to host this call. From management we have with us Mr. Sandeep Sikka, CFO, Mr. R. B. Kabra, President, Building Products, and Mr. Naveen Malik, Head, Corporate Finance. We will start with opening remarks by Mr. Sikka followed by Q&A. Over to you Sir!

Sandeep Sikka: Thank you Dhaval. First of all I would like to welcome all the participants to our investor call, thank you for joining us. I will just make opening remarks and then I think Mr. Kabra can add further and then we will take up the question and answer session.

Before we start the call I would just like to refer to the disclaimer from our investor presentation. Certain statement in this conference call concerning our future growth prospects are forward looking statements, within the meaning of applicable security laws and regulation and may involve a number of risks and uncertainties beyond the control of the company and that could cause actual results to defer materially from those appearing in such forward looking statement. You are requested to refer to disclaimer from our investor presentation before acting or taking any decision on the basis of this conference call.

As far as the results are concerned for the quarter ended June 30, 2016 we have prepared the results in compliance with new applicable Indian Accounting Standard which we call as Ind-AS notified by Ministry of Corporate Affairs. The corresponding results for the quarter ended June 30, 2015 have also been transitioned and restated to Ind-AS for the purpose of apple-to-apple comparison.

HSIL as per the quarter ended June 30, 2016, achieved a total income from operations representing gross sales of the company plus other operating income of Rs.499 Crores as compared to corresponding Q1 FY2015-2016 figure of Rs.433 Crores representing growth of around 15%.

Operating profit that is EBITDA of the company increased by 13.56% to Rs.75.46 Crores from previous year figure of Rs.66.45 Crores. Profit after taxes of the company of Rs.26.48

Crores for the current quarter grew by 36% over the previous year corresponding figure of Rs.19.47 Crores.

The EBITDA margin on the gross sales after reducing the effect of excise duty for the quarter ended June 30, 2016 is 16.40% as compared to 16.63% for the quarter one of the last financial year. So as you would all know the company operates through two business segments i.e. building products and packaging products.

In terms of the performance of building product division, building product division achieved revenue growth of around 23% during Q1 with revenue from operations of Rs. 252 Crores and EBIT growth of around 12% as compared to previous year figure.

The building product division also includes sales and EBIT of the consumer product business the sales of which is Rs.22 Crores and EBIT level expense of Rs.2.55 Crores towards development of the consumer product distribution channel. If we net of these figures of consumer products on a building products businesses the building product division without consumer business represents Y-o-Y sales growth of around 17% and EBIT growth of around 19%.

Within one year consumer business has started yielding stronger consumer liking and the products have been well accepted and company sells the products to around 250 distributors and touching around 4000 retail touch points.

The packaging product division has grown by around 8% in revenue of around Rs.246 Crores during Q1 as compared to last year corresponding quarter. The PPD division, which is the packaging product division, has during the quarter ended June 30, 2016 maintained its superior quarter performance with EBIT growth of around 40.88% as compared to the last year figure.

The higher profit growth is attributable to better product mix resulting in improved realization, cost reduction initiatives undertaken by the division propelled along with the lower fuel prices.

As far as the overall debt position is concerned the total bank debt of the company as on June 30, 2016 is Rs.538 Crores which includes long-term bank debt of around Rs.248 Crores and the overall cost of funding of the bank debt is 5.33 % this includes the foreign currency loan also.

Interest cost has been low during the quarter at Rs.8.46 Crores as compared to the previous figure of Rs.10.42 Crores. One more decision which the board has taken is that subject to necessary approvals the board of the company has approved a scheme of arrangement which proposes demerger of the retail business undertaking of HHRPL, which is currently the wholly owned subsidiary of the company and transfer and vest the same with HSIL on a going concern basis with effect on April 1, 2015.

HHRPL which is a subsidiary as I said before is having two main business undertaking retail business through which it sells furniture from around 14 Evok stores in India and the institutional business caters to making furniture for offices on contracts and etc. The rationale of the demerger is to consolidate the retail business of HHRPL with HSIL and to provide necessary financial and managerial support to the business and generate synergies of operations and better utilization of resources. I would like Mr. Kabra to now add a few more points to the whole discussion.

R. B. Kabra: Good evening everyone. Now Mr. Sikka has given the brief of the numbers which all of you must have already seen. I would like to add few things that both the divisions have done extremely well. In the building product division we have been in this quarter we have grown the highest in terms of percentage against our peer companies results of which have already been out so we have done well and not only well we have done excellent in terms of having the growth in building product division on the back of growth in sanitaryware as well as faucet.

The faucet growth has been much higher at 30% plus and the sanitaryware has also grown around 16% - 17% so sanitaryware which is the core business in the building product and faucet where we are the new entrant we are doing extremely well and we are on line which we mentioned up that in 18 months time we will be the second largest player in the faucet business and we are now confident of what we said earlier that yes we certainly will be second largest player in the faucets in the coming 15 months now.

The growth is good the plant capacity utilization in the faucet is around 65% - 70% now and we expect that by March end the capacity utilization will go as high as 90% if the trend what we are seeing is continuing. Sanitaryware the capacity utilization is around 87% - 88% the expansion is on schedule, which was going on at Bahadurgarh and Bibinagar which will be commissioned by December as we had already announced and this capacities will be available for growth for the next two years and then we will see how we go forward for creating capacities so that is what I wanted to add and now we are open for any question and answers please.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: Thanks for the opportunity and congratulations on the results. Sir my first question is regarding to growth, the growth you have done is much better than peers, so what would be the industry growth and going forward for the full year how much you expect you will be doing better than industry in both sanitaryware and the faucets?

R.B. Kabra: Sanitaryware growth when we talk of industry is still around 10% - 12% and similarly faucet is also growing around 10% - 12% that is the normal growth for the building products in the country and we have done better than the industry average because of the product mix which is improving and faucet of course our distribution and reach is increasing and as the production capacities we are able to increase more production we are increasing our distribution we are increasing our reach and I think by the year end earlier we gave a guidance of anyway between 12% to 13% growth, but I think by the year end our this building product division should maintain a growth of 15% - 17%.

Anshuman Atri: So this growth you are getting is across India or is it in particular regions?

R.B. Kabra: No, it is across India.

Anshuman Atri: And the question reason why I am asking is the real estate is yet to pickup but you are doing much better than the pickup in the other building products?

R.B. Kabra: Yes as we have been saying that we have been very strong in retail. Our institutional revenue contribution has never been more than 30%.

Anshuman Atri: So it is largely driven by the retail sales?

R.B. Kabra: So we have been very strong in retail and that helps us to sell high value added products especially for the replacement. When people are replacing their toilets they go for higher value added products and because we are very strong in retail we are the preferred brand for these replacement for upgradation of the bathrooms and our reach is very large. We have around 3000 dealers all across the country. We sell through around 18000 - 20000 retail touch points so we are very well entrenched in tier two and tier three cities where the sale is improving and the sentiments were never too bad. Actually if you really see basically the downturn in the real estate was largely in the major cities where the builders were building huge inventories. The people who are building their individual homes or renovating their individual homes, they never had shortage of money and it was very easy for them to get money from the bank as a loan or for buying a house or building a house or renovating their house, home loans are available easily so I think tier two and tier three cities are doing very well for us.

Anshuman Atri: Is it possible to get volume growth?

R.B. Kabra: Actually we used to give but last quarter onwards we stopped talking of volume growth because we are not disclosing that also in the balance sheet anymore.

Anshuman Atri: Last question is on the faucet capacity, you will be reaching 90% by March any plans of further expansion, you have outlined for sanitaryware but for faucets?

R.B. Kabra: We discussed this faucet growth plans and what we have decided that we will see the growth till December that whether we are moving as per our budgets and targets and if we see yes by December we are as per we are having growth as schedule then we will start work sometime in January and by end of June those capacity for adding 1.2 million piece which will be around 50% of the existing capacity of 2.5 million pieces will be commissioned in six months time by June and one thing more the cost for this what we have estimated now should be around Rs.25 Crores because we already have buildings we already have chrome plating plant which has a capacity of 5 million pieces so like in the for 2.5 million piece we have invested around Rs.135 Crores, for 1.2 million pieces the investment will be anywhere between Rs.25 - 30 Crores so that will be very, very cost effective expansion of capacity.

Anshuman Atri: Just this Rs.25 Crores you have given so can you give the total capex?

Sandeep Sikka: Total capex would be somewhere around Rs.350 - 360 Crores because there is small other capexes which also keeps along so this includes part expenditure relating to the caps and closure business our expansion into pipes our expansion of Bahadurgarh plant, CD-1 and CD-2 plants and also includes certain maintenance capex and other things at rest of the plants.

Anshuman Atri: Thank you.

Moderator: Thank you. The next question is from Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Thank you for the opportunity Sir and congratulations on good results. Sir firstly the very encouraging set of comments we heard from you because typically if you look at the entire consumer pack or probably the extended consumer pack we have not really heard about any demand per se improving on the ground so be it the consumer staples company or be it even a building products company so I just wanted to know what is that we are doing separately as far as the demand is concerned because even if you look at the building product side of it that even while there also lot of people have been talking that retailers has been still better but still nobody has not really highlighted about even like a 10% kind of a growth rate as well so I just want to know what is happening differently over here?

R.B. Kabra: I think you are asking that why we are growing higher or how has been able to grow higher than the rest of our peers in the sanitaryware and faucets both, am I right?

Prashant Kutty: No Sir absolutely right that itself but I am just asking not only sanitary and faucets but against probably the entire consumer industry as a whole actually?

R.B. Kabra: In general we think that in the consumer industry the sentiments are improving like still last quarter we said that we do not see any sentiments improving, but this quarter seeing the results and also the month of July and August till now we see the sentiments are improving and not only for sanitaryware and faucet but our consumer product division which is a very, very new division we are doing extremely well in terms of revenue growth because in this quarter also the CPD growth is more than 200%. Last year we had a revenue of around Rs.7 Crores in the consumer product division which is this year is around Rs.22 Crores in this quarter so and as you will be seeing numbers like cars have done well and the fridges have done well and the LCDs have done well so I think general sentiments are improving especially considering that the Seventh Pay Commission money will be coming in hands of the people. The people are now feeling that monsoon will be good as predicted by the meteorological department so sentiments are certainly improving.

Prashant Kutty: Typically, if I ask about you just said that tier two and tier three is probably driving growth for you as well is there any geographical salience as to any specific segment or any specific corners are doing well as far as the country is concerned if you would like to highlight anything of that?

R.B. Kabra: We have been telling that south is the largest area for us when we divide country in four south, east, north and west and south has been the largest market for us followed by North, followed by west and then east and it still continues the same, so I can say that every region is growing.

Prashant Kutty: Sir moving onto the consumer appliances side of data obviously now we are starting to increase that base number now what is our plan on the distribution side of it because I just beyond a particular point of time the distribution might not be like common distribution you might have to increase because we are increasing our product lines on the appliances side so what is your take on the distribution side of it how do you plan to probably create a new distribution line and if you could just probably help us in that front?

R.B. Kabra: There are two basic channels. One is the brick and mortar channel and the other is the e-commerce channel.

Prashant Kutty: I am sorry you said brick and mortar motor and e-commerce right.

R.B. Kabra: Brick and mortar and e-commerce. Then we started consumer product business which was largely the kitchen appliances, which was hoods and hobs and chimneys 50% - 60% were getting sold through our common dealers, but when we launched geysers last year we have started building separate channel for consumer product division and today we have around 280 dealers who sells these kind of products, we have 3800 retail touch points and we will be enhancing this and by this year end I think we are expecting around 500 dealers and around 8000 - 10000 touch points, so separate channel is being built so we have a channel for building products and then we will be having channel for consumer products so already started working on developing this channel and that is the reason that you see negative at PBT level in the CPD business because we are creating infrastructure, we are creating channel, we are creating sales team separately for this, so we will have a separate channel and I think common sales from the common dealer will be less than 20% in times to come.

Prashant Kutty: Potentially among, so while obviously you are highlighted this at but these are largely going to be outsourcing model actually but probably looking at the scheme of things at this point of time which segment specifically are doing well in the consumer appliances and would you actually contemplate something like a manufacturing of any of these not at this point of time but may be at a later point of time or may be because of category you look really big for you from your perspective.

R.B. Kabra: Prashant Kitchen appliances we have been importing and we have been sourcing locally for last three four years we continue to do that. Then the large products category which was launched was geysers which we have launched in tie-up with Groupe Atlantic of France. They are the largest manufacture of heating systems in the Europe and the geysers has a joint branding of Hindware Atlantic. I do not know whether you remember on last call I mentioned that the agreement which we have with them is that till a certain number of sale we achieve we will keep importing, once we cross the threshold then we will put up assembly plant where the critical component will be supplied by them and may be the steel body can be fabricated here and once you again reach a certain threshold then we will put up a JV that is the kind of agreement we have with them. When we will reach those stages, it is difficult for me to answer today but the kind of response we received last year because geyser is a seasonal product ,normally doesn’t sell the whole of the year and sells for six months so last season we have got a very good reception of our product because it was all imported and the features were really good they had lot of features which was not available in the geysers which were sold in India and we could sell 50000 numbers in the initial launch of few months which is very, very creditable for any new launch for geysers and our geyser also got an award for product of the year so we have to see this season and we feel that this order booking is good because normally the order booking starts three months in advance then actually you start delivering so if we get a good order booking we can think of may be putting an assembly line or something but today I can't say anything, only one thing I would add if you put an assembly line the capex is not more than Rs.5 - 10 Crores.

Prashant Kutty: Just to take this forward as well, and in terms of kitchen appliances which of these products, which are probably feeling that which would actually be added into the portfolio at this point of time, we feel the current portfolio is enough for the level of growth that we want to have?

R.B. Kabra: To give you today's number we have the kitchen chimneys or hoods as you call it we have kitchen hobs, we have cooktops then we launched geysers then we launched air purifier then we launched kitchen sinks, then we launched air coolers and now we are working on water purifiers which are RO based water purifiers which will be launched may be in next four to six weeks. The prototypes are getting tested in the market place so this is the another line of business which is a very large business in India because the water quality in most of the places is bad and everybody is wanting water quality we drink should be of a reasonable standard so that business is growing around 30% in the country so that will be the next launch so we keep looking that is what we can add profitability and at a reasonable volume.

Prashant Kutty: Typically Sir if you look at it obviously as per this HSIL sanitaryware was concerned obviously our branding was more from that premium kind of premium segment kind of it there is it a similar positioning over year as well when you talk about consumer appliances?

R.B. Kabra: Yes, our geysers are very, very premium priced. Air purifiers are premium priced so here are also maintaining the position that the products will have some special features which makes them technically superior and what is currently available in the market place.

Prashant Kutty: I am sorry Sir I just missed one part of the on the process part of the expansion you said that you are looking at some expansion of faucets?

R.B. Kabra: What I mentioned was that we have a capacity of 2.5 million pieces as you all know. The current capacity utilization is around 65% - 70% and looking to the kind of growth we have achieved in this quarter and what our sales team has projected we are expecting that we will be reaching capacity utilization of around 85% - 90% by end of this financial year. So what I said that we have already have a building which we build at the time of putting up this plant we have certain common equipments already which can give higher capacity and we can increase capacity by 50% by investing only Rs.25 - 30 Crores against Rs.130 Crores what we invested in putting up 2.5 million piece capacity. We will review this decision sometime in end of December. We will see that yes three quarters we have done as per our projection so to the extent it can be completed in six, seven months.

Prashant Kutty: Sir potentially that could add about 1.5 million pieces right?

R.B. Kabra: 1.2 million, 50% of what we have today.

Prashant Kutty: I will come back on the queue. Thank you.

Moderator: Thank you. The next question is from Nihal Shah from ICICI Securities. Please go ahead.

Nihal Shah: Congratulations Sir for good set of numbers. Sir few questions here now your guidance you have revised and BPD which has now gone up to 15% - 17% compared to 12% - 13% earlier, but if I rightly remember sir your consumer product target for this year has close to Rs.180 Crores right?

Sandeep Sikka: Rs.150 - 160 Crores.

Nihal Shah: That in itself would give you 10% incremental growth so that means you are expecting just about 5% to 7% growth in faucets excluding the consumer product business we are expecting as 5% to 7% versus the 17% growth we have achieved in the first quarter so are we too conservative on that side?

R.B. Kabra: No, not really I think when we say that we will be expecting growth of 15%- 17% then we are talking of building product minus CPD.

Nihal Shah: So you are talking about minus CPD?

R.B. Kabra: Yes, even when we said 12% - 13% we also said minus CPD.

Nihal Shah: So basically with CPD so you will be near to 25% kind of growth.

R.B. Kabra: May be 22% - 23%.

Nihal Shah: Sir about the consumer product business when do you expect that business to breakeven probably.

R.B. Kabra: Next year.

Nihal Shah: The second half or first half of next year.

R.B. Kabra: By end of the next year.

Nihal Shah: By FY2018 end?

R.B. Kabra: Yes.

Nihal Shah: So breakeven at the EBITDA level.

R.B. Kabra: Yes, but one thing there is not much capex invested into this business because everything is either imported or outsourced so today we do not have much assets into the business so EBITDA, depreciation will not be very large.

Nihal Shah: Sir this quarter you did a negative EBITDA of Rs.2.55 Crores in the consumer business do you expect this number to be the peak number or do you expect these losses to escalate a bit and then probably go down.

Sandeep Sikka: This will slightly increase as we are going into new ranges so there will be a bit of marketing expenditure so all the purification business which we are doing is actually under the new brand called Moonbow as we communicated last time also so these are all right now very soon you may see the launches and other things so there will be some expenditure in the marketing. There will be increase in the expenditure as we have already given guidance that we may spend around Rs.20 - 25 Crores over the next 12-15 months last time also we spoke about it and as we go around building up that and selling all these new products so there can be some marketing expense as we move forward and this may increase.

Nihal Shah: So where do you expect the BPD margins to stabilize for the current year?

Sandeep Sikka: The BPD in EBITDA margins the way we have in the first quarter.

Nihal Shah: 12.6%.

R. B. Kabra: That is not EBITDA.

Nihal Shah: Sorry EBIT margins.

Sandeep Sikka: So that is EBIT margin to gross sales so I think there is some transformation also now under the Ind-AS the figures which we are reporting now from the previous one I will just brief you on that so historically we used to give a net sales figure so that figure was net of gross sales minus excise so now the figures which has been crafted in the Ind-AS is the gross sale minus some discount which are initially part of expenditure, but Ind-AS is the final as we move forward so we will added so these are all as a percentage to gross sales so some confusion can arise if you see the trend over last few years so you have to see as a percentage to gross sales rather than the net sales.

Nihal Shah: So probably 20% margin which we are earlier looking at probably two years back would have been 17% - 18% as per Ind-AS.

Sandeep Sikka: As per Ind-AS due to adjustment of gross to net.

Nihal Shah: So if you look at current 12.6% for the BPD division which we have given in the segment of highlights can we expect margins to move up a bit by the end of the year say probably to 14% which was the corresponding quarter of previous year?

Sandeep Sikka: Margins may be slightly misnomer as Mr. Kabra said that the growth in the faucet market is increasing for the company and we are actually although if you see the sanitaryware and the faucet market, market is growing at around 10% - 12% but our growth is higher so actually on the faucet side we are actually taking the market share from others. And the percentage margin in the faucet is not as high as building product, which we have. The thing is that the absolute value on the per piece is much stronger as compared to it is almost double to what we get in the sanitaryware, perhaps our brass items being costlier so absolute EBITDA as a percentage to the selling price for a particular product, the EBITDA range is around 12% to 13%. So the percentage margins may confuse as we move forward on a mixed basis.

R.B. Kabra: Just to give you some perspective, the sanitaryware used to be around 65% - 66% of the building products revenue, now with the CPD growing and with the faucet growing this has come down to 57%, faucet used to be 16% - 17% which is now 25% - 26%, CPD is 9% and CPD at EBITDA level as well as the net level is negative as we have been repeatedly saying but this is all clubbed under building products, so the infrastructure building cost and the channel building cost of CPD has also affected this EBIT margin from the building product.

Nihal Shah: If you negate that Rs.2.55 Crores your net of EBIT margins is close to 13.6%.

R.B. Kabra: Yes only gross sales as you are looking at it. So I think we should be able to maintain and we just had a price increase in faucet from August 1, and we will be having price increase in sanitary ware from October 1, as we already discussed internally so that should give us some improvement in the margin by 1% to 1.5%.

Nihal Shah: Sir faucets and sanitaryware by how much percentage?

R.B. Kabra: Faucet 3%, which is already implemented and sanitaryware also around 3% to 4% which will be from October 1.

Nihal Shah: So this will help us at least some kind of margin uptick?

R.B. Kabra: Yes.

Nihal Shah: Sir my last question on the PPD side your margins obviously sequentially have gone down from 15% to 10% now that largely I believe is because of the pet coke prices going higher what is your take on the pet coke prices as of now and where do you see the margin settling going forward?

R.B. Kabra: The pet coke prices have not gone up as such so I think there is some understanding error at your end because if you see Q1 of last year, EBIT margin in packaging product business was 8.8% and this quarter is 11.5%.

Nihal Shah: But if you look at the March quarter it was 15%.

R.B. Kabra: I got it so please do not compare March quarter, the quarter three and quarter four in the glass is the highest selling quarters. Quarter one becomes much down and quarter two becomes still poorer than quarter one so the fixed cost absorption is not as good in quarter one and quarter two as good the quarter three and quarter four. If we have to compare please compared H1 to H1 and H2 to H2.

Nihal Shah: So basically our margins have improved because of the product mix?

R.B. Kabra: The margins actually have improved in glass business and we are quite sure of sustaining these margins.

Nihal Shah: Thank you so much.

Moderator: Thank you. The next question is from the Jaspreet Singh Arora from Systematix Share. Please go ahead.

Jaspreet Singh Arora: Sir just on the building product side what would be you mentioned CPD did a Rs.22 Crores of sales right?

R.B. Kabra: Yes.

Jaspreet Singh Arora: So what would be the loss here just to understand the core margins in the traditional business?

R.B. Kabra: Loss is Rs.2.55 Crores to be precise at EBIT level.

Jaspreet Singh Arora: If you can please give the last March quarter similar number the revenue and loss.

R.B. Kabra: That was slightly positive.

Jaspreet Singh Arora: At what sales?

R.B. Kabra: Of Rs.7 Crores.

Jaspreet Singh Arora: Rs.7 moving to Rs.22 and Rs.2.5 Crores loss versus cost?

R.B. Kabra: You are talking sequential quarter, you are talking of Q1?

Jaspreet Singh Arora: Yes sequential Y-o-Y does not because Y-o-Y we were not there earlier as much so sequentially?

R.B. Kabra: Even Y-on-Y we were selling some consumer product so it was Rs.7 Crores I am telling you quarter-on-quarter and year-on-year so last year quarter one the consumer product sales was Rs.7 Crores which in this quarter is Rs.22 Crores and this was negative of Rs.0.44 and this time negative is of Rs.2.55.

Jaspreet Singh Arora: On this hive off of this business, is Evok the only thing in that retail thing that you hiving off and more than to parent I miss that initial remark on that, if anything else beside the Evok?

Sandeep Sikka: So HHRPL which is our wholly owned subsidiary had two businesses within it so one was we are selling through the furniture and other furnishing through its 14 stores and apart from it we were doing some contracting job for the institutional like some of the PSUs were making their offices furnishing their offices so that was more of a institutional business. So what we have done is we have dissected the retail business undertaking within that demerged it and now we are planning to vest the same into HSIL so it will come into HSIL as it is.

Jaspreet Singh Arora: So you have given in the really is it did some Rs.93 Crores of revenue last year is that right?

Sandeep Sikka: No 93% of the revenue of HHRPL is that business.

Jaspreet Singh Arora: No, Rs.93 Crores of revenues what I saw?

Sandeep Sikka: Rs.93 Crores that is a turnover of Rs.100 Crores. So around Rs.93 Crores of that turnover because that unit last year did I think Rs.96 - 97 Crores of turnover, sales turnover of which Rs.93 Crores is the retail through the stores.

Jaspreet Singh Arora: So which is what will be added to our parent turnover next year?

Sandeep Sikka: Yes on a consolidated basis it was already getting added.

Jaspreet Singh Arora: Correct agreed so now I will get added just like we did with Garden Polymer earlier so now it is happening with this company now?

Sandeep Sikka: Yes.

Jaspreet Singh Arora: What would be the PBIT or a PAT or the similar figure at the net level for last year?

Sandeep Sikka: They were losing money so I think net-net they lost around on a PBT level around Rs.18 Crores.

Jaspreet Singh Arora: Rs.18 Crores loss last year?

Sandeep Sikka: Yes.

Jaspreet Singh Arora: Lastly, what is the rationale and what would be synergies and the approach towards this business increasing how would it be different versus coming into the parent and not being able to do that when it was a subsidiary?

Sandeep Sikka: I think the management attention it will get more management attention and also it will be under more active purview and as we feel as we move forward we feel that this whole business should turnaround because the furniture and hard furnishing business Rs.93 Crores from 14 stores is a good business but we have to scale it up and it requires lot of management synergies of operational cost and other things and this demerger and vesting on the same with HSIL will help achieving all those synergies.

Jaspreet Singh Arora: So any target that you have as to in which year you think it could break even this side of the business.

Sandeep Sikka: Retail business in India per se is still if you see most of them are not making money but definitely we feel in next one to two years target it should start breakeven.

Jaspreet Singh Arora: By this topline growth or is it happening on some cost rationalization as well?

Sandeep Sikka: The cost even on reduced cost to the n^{th} level so the cost optimization will happen but main chunk of it has to grow from more footfall, more conversions happening at the store and also in a better products and it is more linked to higher level of sales rather than more to do with the cost also.

Jaspreet Singh Arora: Thank you so much and all the best. Thanks.

Moderator: Thank you. Next question is from Kaushik Poddar from KB Capital Markets. Please go head.

Kaushik Poddar: You have narrated that the capital investment will be something like Rs.350 Crores can you give year wise breakup and year by then project wise breakup please.

Sandeep Sikka: Project wise, I have already stated in the major because there are big capexes and there are small capexes so what I will highlight is only the big capexes. The big capexes is we have this pipes projects which is Rs.105 Crores which was approved by the board, Rs.112 Crores for caps & closures.

Kaushik Poddar: The pipes how many Crores.

Sandeep Sikka: Rs.105 Crores.

Kaushik Poddar: And it is getting operational when?

Sandeep Sikka: It will get operational by first quarter of next financial year and then we have a security caps and closure projects which is Rs.112 Crores and that should be operational again in Q4 or partly in Q1 so there is a buildup of capacity which is happening, but we will ideally start by March and then there is a capacity expansion at sanitary ware plant 3.8 million people to 4.2 million pieces so that is about that should also be completed by March and then there were two other projects small maintenance capexes which are being done on debottlenecking exercise at packaging division and other things because that unit has actually started performing well and we have to support them with all the essential maintenance capexes.

Kaushik Poddar: The glass packaging division?

Sandeep Sikka: Glass packaging division.

Kaushik Poddar: And for this pipes project or even for the other project costing Rs.112 Crores what is the kind of payback period you have calculated?

Sandeep Sikka: All these projects will have an ROCE of around 20% upwards based on the current market condition. As we move forward they should ideally have a payback period of around 3.5 to 4.5 years, but it is more important that when we talk about the pipes project and as Mr. Kabra said we already have a building product channel to the market. Consumer product has already demonstrated its performance in last one year wherein we almost doubled more than doubled our distribution to the market, so that will be the second channel and in pipes actually we sell through the hardware channel although it is complementing our existing business but it essentially sells through the hardware counters so may be in two to three years we will have three distribution channels to the market and then we can create lot of value in terms of the future next level of growth.

Kaushik Poddar: What is the kind of turnover you are expecting to say FY2019 will it be something like Rs.3000 Crores?

Sandeep Sikka: Now, if you see on a base right now when you talk about our basic building product business of sanitaryware and faucet so this should ideally continue to grow at around 15% to 17% and consumer products we are seeing that in next two, to three years it should may be in four years should touch a turnover of Rs.400 to Rs.500 Crores. In three to five years because it depends on the market conditions .Also the pipes we feel that once this level of project is fully stabilized it should lead to a turnover of around Rs.400 - 425 Crores and glass will grow at a national growth rate of ranging between 5% and 10% depending on the market conditions.

Kaushik Poddar: My last question is on glass, do you see the EBIT improving because there is no new capacity coming so will that…

Sandeep Sikka: On the glass side if you see our growth has been around upward of 8% because the market conditions are still not that great. We are number two player in the market so the challenges are there but we are working, we are innovating we have worked with a lighter bottle which we called as NNPB bottles so we are creating lot of value for our customers and has also been able to upscale our realizations in the market on a per tonne basis and also worked on the cost. Fuel has also added lot of value on reducing the cost although when we tried to compare Q1 to Q1 there is substantial reduction in fuel but it is almost stabilized now if you see the fuel prices over last six months are pretty stable although they move in a range bound but they are pretty stable.

Kaushik Poddar: Thank you.

Moderator: Thank you. The next question is from Sunil Kothari from Unique Investments. Please go head.

Sunil Kothari: Sir just one thing I just wanted your thoughts on this over the business which we are merging our subsidiary as our retail business which is I think incurred losses but was roughly Rs.90 - 95 Crores incremental losses and in last concall last year you were clear about reducing those business and reducing the losses so do you feel is there any compulsion to continue with this business or you feel it will definitely create a value where it is because since last three four years we tried very hard but the business is not matching with our other performance?

Sandeep Sikka: What you are saying is right but if you see last two year's trend the furniture business is walking a different path and it is actually evolving with all these e-commerce companies coming in so there is a new thought how the business of furniture is being done so definitely I take your point in the furniture and this whole business is not yet making money, business which is yielding around Rs.93 Crores of sales which we are talking to actually merge with HSIL after getting demerged that is a substantial amount of sale in the market and we are trying to upscale the sales level so that the difference is not much the day with that we achieve a growth of around 30% - 40% from here we may start breakeven on this.

Sunil Kothari: So this Rs.18 Crores loss which we made last year could we expect around Rs.10 Crores loss current year will be reducing by half?

Sandeep Sikka: Not immediately but maybe in next year onwards some reductions should happen.

Sunil Kothari: But this year should we expect the similar range and may be higher loss?

Sandeep Sikka: In a similar range bound so we cannot comment on it right now because we are only in the Q1.

Sunil Kothari: And are we infusing any capital in this business during this year or may be over a year or two?

Sandeep Sikka: Yes because this business is incurring losses and being a wholly owned subsidiary we have to support them as the parent company.

Sunil Kothari: No my point is expansion of the stores to expand our business?

Sandeep Sikka: We are rationalizing the stores so in the last conference call if you see would have spoken of around 16 stores, now we have closed two stores and we may open two more stores because the real game in this business is to increase the number of stores and to increase the sales, and make the stores more efficient so that the sales level are higher and there is a fixed cost consumption which is a supporting cost gets evenly absorbed across the stores.

Sunil Kothari: So we will be infusing what type of money if you can highlight?

Sandeep Sikka: I think historically if you see annually we have infused around Rs.15 to 18 Crores.

R.B. Kabra: When you open a store here largely the capex is not too large it is now Rs.1.5 Crores per store because you need not to do the roofing, only do the flooring and rest of the items are display to gets sold out, display is not permanent so basically what you will spend in the lighting fixtures some air conditioning, and flooring because when you open a store the capex is not very large anywhere between Rs.1 - 1.5 Crores including the 3 month advance rent deposit what we have to do..We are not planning a big expansion in the number of stores. We have already closed two and maybe we shut down one more store or change the location of one to another because if we feel that the footfall is not right at this particular location for some development which has taken place in last two months or may be one year, we can change location of that store.

Sunil Kothari: Sir this institutional business you said some institutional business to furnishing and all that. That will be closing down?

R.B. Kabra: That will remain in the HHRPL.

Sunil Kothari: But will be continue with that activity also for PSUs.

R.B. Kabra: See we have certain orders in hand and till the time we execute those orders we have to run that business we cannot leave them in between.

Sunil Kothari: No but still future are we interested to continue those business also or we…

Sandeep Sikka: We have created some value there also because in some of the PSUs we are very well recognized and we have got those historical orders so we will continue as of now but we will keep considering it because that is a very small turnover around Rs.3 - 4 Crores this will be left there so we will also see that how we make that profitable.

Sunil Kothari: Sir why I am asking or conveying my thought is basically we are worried about the way we are expanding the product range, yes it is related to consumption consumer products but in this furniture business and it is so much competition and during last three four years we lost so much money also I thought why it is business like it?

Sandeep Sikka: Additional business is other than furniture actually because it is more to do with furnishing of offices but that also is a good business because this Evok caters primarily to the retail home segment and institutional business caters to more towards the office segment.

Sunil Kothari: Thank you.

Moderator: Thank you. Next question is from Amar Kalkundrikar from HDFC Mutual Fund. Please go head.

Amar Kalkundrikar: My question is again on Evok I did not get your comment clearly. Do you want to increase the store footprint?

Sandeep Sikka: Basically what has happened is still last year we were having 16 stores so what we are doing is we are rationalizing the stores we are analyzing store by store how much is the footfall and how we can increase the footfall. The real game here is to increase the footfall, to increase the conversion and to have a better product to the market and to the customer so we may shift few of the stores to a better footfall areas so that we can increase the sales but the intention is not to grow the business from 14 stores to 20 stores or like that we will make a slow growth but the idea is to make a profitable growth.

R.B. Kabra: Amar we have already closed two stores in last six months when we realized that these stores will never make money. We are considering shutdown of another one store and maybe we open one more store. so it is not that so number of store in totality will remain lower than what was at the last year.

Amar Kalkundrikar: When this merger happens we will also get any benefit of accumulated losses on tax rate?

Sandeep Sikka: Yes, that is something as per the law will happen so we will get some benefits out there.

Amar Kalkundrikar: Thank you very much good luck for the ensuing quarters.

Moderator: Thank you. We take the next question from Nihal Shah from ICICI Securities. Please go ahead.

Nihal Shah: Thank you again can you give us the effective tax rate for the accumulated losses adjustment in HHRPL?

Sandeep Sikka: This scheme is effective from April 1, 2015 and last year effective tax rate was around 35% and they have as on that particular day the appointed date the total accumulated losses of around Rs.95 Crores. So ideally as per the tax laws we would be entitled to some tax benefits out there so you can calculate broadly what sort of percentages because it is not a question of percentage of taxation it is the calculation of the tax rates in absolute amount.

Nihal Shah: So basically our tax rate for this year and next year probably would be much lower than what we have been?

Sandeep Sikka: Yes, may be in one or two years the cumulative losses may get absorbed and then we will come on to the normal tax rate.

Nihal Shah: Thanks a lot.

Moderator: Thank you. As there are no further questions from the participants I hand the conference over to Mr. Dhaval Mehta from Emkay Global for his closing comments.

Dhaval Mehta: Thank you everyone for attending the call. We would like to thank the management once again for giving us the opportunity to host the call. Sir would you like to make any closing comments?

R.B. Kabra: Thank you everyone for sparing your time and giving your time to hear us and the management views that what we have done and how we wish to proceed further and if you need any further clarification you can call us one-to-one you have our numbers and you can call us if you need any further clarifications. Thank you very much. Thank you for your time.

Moderator: On behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us. You may now disconnect your lines.