"HSIL Limited Q3 FY 16 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the HSIL Q3 FY 16 earnings conference call hosted by ICICI Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nehal Shah from ICICI Securities, thank you and over to you sir.

Nehal Shah: Good evening everyone. We at ICICI Securities are pleased to host the Q3 FY 16 conference call for HSIL Limited. We have with us the senior management of the company represented by Mr. Sandeep Sikka – CFO, Mr. R. B. Kabra – President (Building Product Division) and Mr. Naveen Malik – Head (Corporate Finance). Over to Mr. Kabra for initial remarks.

R. B. Kabra: Thank you very much and I welcome all of you on this conference call which we do every quarter after our quarterly results. Mr. Sikka will give you the brief information on the performance of this quarter and then we will open for the Q&A session, whatever anybody has questions or clarifications. So Mr. Sikka will be giving the brief on the performance for the quarter.

Sandeep Sikka: Good afternoon to you all. I welcome you all to this post results conference call for HSIL Limited. I understand the participants would have gone through our results but I will briefly run through them. HSIL for the third quarter ended 31st December, 2015 achieved a total income from operations of Rs.506 Crore. As compared to last year corresponding quarter of around Rs.460 Crore this represents a year-on-year growth of around 9.5%. Total income from operations for nine months ended 31st December 2015 is Rs.1348 Crore and this represents a growth of around 3.87% as compared to last year figure of Rs.1298 Crore.

In terms of segmental revenues Building Product Division achieved year-on-year revenue growth, this is a quarterly growth of around 17.25% with Revenues from operations of Rs.267.56 Crore Overall year-on-year growth for BPD product is 11.22% for nine months of operations for the current financial year as compared to last year.

Packaging Products Division has grown marginally by around 2% during the quarter three as compared to last year.

Overall operating profit which is EBITDA, Earning Before Interest Depreciation Taxes and Amortization for Q3 represents almost a flat growth around 1% growth and the EBITDA for the quarter is Rs.96.15 Crore. However, on a sequential basis this represents around 25% growth when you compare Q2 over Q3. The main gainer also has been the finance cost as compared to last year Rs.19.59 Crore quarter interest, this quarter interest has been Rs.9.62 Crore. This is a saving which is on account of the repayment of the debt and also the equity issuance which the company did in March 2015. So there is a natural repayment of debt as well as the additional equity which has reduced the Working Capital cost.

EBIT for the Building Product Division for Q3 is Rs.43.25 Crore representing a YoY growth of 2.68%. EBIT for Packaging Product is Rs.35.29 Crore representing a YoY growth of around 12.64%. Profit Before Tax for Q3 is Rs.57.79 Crore representing YoY growth of 32%. For nine months ended 31st December 2015, Profit Before Tax is Rs.123 Crore representing YoY growth of 29.83%. Profit After Tax for Q3 and nine months of current financial year is Rs.36.95 Crore and Rs.78.63 Crore representing a growth of 21.99% and 22.19% respectively as compared to previous year corresponding figures.

There has been a substantial improvement in the debt equity of the company on a year-on-year basis and the debt equity of the company as on 31st March, 2015 is 0.65. Long-term debt as on December 2015 around Rs.369 Crore and this represents predominantly the ECB (External Commercial Borrowings) which is around $ 48 million and the Weighted Average Interest cost of the company is around 5.34% p.a.

I think this is the initial briefing which covers major chunk of the numbers which have been published by the company.

R. B. Kabra: Before we got to the Q&A a few things which I would like to add is the Packaging Business there is no sales growth but there has been a growth in terms of margins which we also mentioned last time that because of the fuel cost coming down and as you all are aware that the fuel cost has been continuously going down in the international market, so that advantage has accrued to us and some advantage because of the product mix because, I don't know, a few of you may recall that two years ago we had put up a speciality Colored Glass line where we were able to make in one of the line, speciality color glasses. Of course, we have been making the flint, the amber and the green but like dark red, dark blue, dark green all these kinds of colored bottles were being imported in the country and we were the first, the only one to start production of such specially colored bottles in December 2013 and the capacity being around 1500 tons a month and margins in those speciality colored bottles because the replacement is only imported one. So this line is now fully booked so that is one good achievement the glass business had and this line which last year probably had a utilization of 40% current running rate is that it is fully booked and we are over sold and, of course, the development of new products as well as the Rupee depreciation because the imports are becoming more and more costlier so people are finding sourcing the special coloured bottles from us cheaper.

On the Building Product side – the growth has been good, the margins have been maintained but the growth also been contributed by the consumer products which we launched, largely the Water Heaters as we call them Geysers. And of course, we have been there in this line of business for the Kitchen Chimneys and hobs for the last 4-5 years so there also is a good growth. As we have been always mentioning that base is small and the market growth is also more than 20% and we have been also growing but with the new product launch in this division has done extremely well in terms of sales. Of course, this has its infrastructure creation cost because we have to create a vertical, we have to create logistics, we have to create a dealer network, we have to create our sales team for this, the products are all outsourced and the response is good. One good thing we can say that only after four months of launch of Geysers we have 5% market share of the organized Geyser market which is a good achievement and thanks to customer and thanks to design of the product that this has been very well received and we are quite confident.

In coming period you will also see some more products being launched under this new brand which we have created for the consumer products, the new brand is Moonbow and the Air Purifiers which were launched in December 2015, this brand has been received well and you will see going forward some more products coming under this brand.

That I wanted to clarify; now we are open for questions and answers.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Prashant Kutty from Emkay Global. Please proceed.

Prashant Kutty: Firstly on the Building Product segment if you could just give us a break up as to how have been the growth in the Sanitaryware segment and how has been the growth in the Faucets ware segment?

R. B. Kabra: The Sanitaryware growth is around 8-9%. Faucet, because of the new plant what we commissioned in July 2014, the Faucet growth is substantially high, it is in mid 30s.

Prashant Kutty: In that sense what do we look at this growth going forward? Sanitaryware also if you look at it there has been an improvement versus the earlier couple of quarters back when we were actually looking at somewhere about only 4-5% kind of a growth rate. Any specific reasons as to how has this growth actually moved up because if you look at the overall Real Estate activity it still remains benign, so if you could just help us find the reasons for this?

R. B. Kabra: Actually you are right Prashant that the Institutional segment is very slow. Not only little slow its very slow. But on the other side the Retail, because we have been telling that we have been very strong in the Retail segment and Institutional business has been around 30% for us. It has been moving between 25% and 30% over the last 5-7 years. So this nine-month if we talk of the Institutional business has gone down to 23% which is clearly indicative of the lull in the Real Estate market. Not that we don't have the orders from the builders but we are not supplying as long as we don't receive the payment and that community is under pressure, the financial pressure, the liquidity pressure. But the Retail is doing well which has gone to now 77%. So I think as we have been telling that we are strong in Retail we will continue to focus on Retail, of course, not neglecting the Institutional segment but the Retail growth is good and the penetration is good and the Tier-3 cities now we are increasing our reach more and more so I think it is giving good results. And Faucet being the new entrant, still you talk of Faucet market is around Rs.6000 Crore, out of which we are still around less than 5% market share so there growth with our brand and with our reach and with our dealership I think reaching up to 10% should not be any hassle at all.

Prashant Kutty: You highlighted about increasing reach in the Tier-2 and Tier-3 cities. If you could just give a sense as to how has been the growth pattern in the Tier-1 cities vis-à-vis the Tier-2 and Tier-3 cities?

R. B. Kabra: Tier-1 and Tier-2 there is a mixed response, some cities are doing extremely well some cities are not doing well. So something is compensated by the other cities, so I think growth in these Tier-1 and Tier-2 is also there. Like Bombay is not doing too good but Pune is doing good, Bangalore is doing good, Delhi is doing good but Noida is not doing good, so it's a mixed bag for the Tier-1 and Tier-2 cities.

Prashant Kutty: Secondly, if you look at the Building Product margins obviously you did highlight about the fact that there has been an increase in the cost especially with related to the consumer products segment. Firstly, if we could just now what would be the size of this consumer products business at this point of time in the overall Building Product segment?

Sandeep Sikka: Right now I think this year we should have a run rate of sales around Rs.25 to 30 Crore from here onwards every quarter and I think double in the next 18 months.

Prashant Kutty: What would be the number for the nine-month period?

Sandeep Sikka: The number for nine months should be somewhere around Rs.70 Crore.

Prashant Kutty: This Rs.25 to 30 per quarter should double to almost Rs.60 Crore from next year?

Sandeep Sikka: Within next 12 to 18 months. We are calling this as an investment because we create a separate team, there is a separate brand which is Moonbow, this is a new brand which we have launched in December and because we will be catering a number of products which goes to the kitchen, the company thought that instead of using Hindware which is more of a bathroom brand for a kitchen we should have a separate brand which is Moonbow, so brand activation activities will also start in the next few months. So we expect a total net investment of around Rs.25 to 30 Crore over the next 15 to 18 months which will be charged to P&L under the Building Products end.

Prashant Kutty: So on account of that going forward also we should be expecting our Building Product EBIT margins to be in the range of about 15-16%?

Sandeep Sikka: Otherwise if you see the Building Product margins have in fact grown because of lower cost of production.

R. B. Kabra: And lower cost of fuel, as you all are aware that Bahadurgarh Plant runs on Natural Gas which is supplied by Gas Authority of India and at the back to back contract based on Gas Authority's contract with RasGas. And now as you all know that GAIL has been able to negotiate prices down with the RasGas the same benefit has been passed on to the customer. So from 1st of January the Natural Gas price for Bahadurgarh has also been reduced around 35%. So that benefit in terms of fuel you will continue to see. CD 2 which is Bibinagar plant, of course, has been running on LPG and because of the LPG prices coming down, being the open market and the international prices petroleum price is coming down so that benefit has been continuously accruing to us because of the lower fuel prices.

Prashant Kutty: So we actually anticipate further fuel cost to be coming down from here as well even from these levels?

R. B. Kabra: Yes, because for the Natural Gas as this has happened only on 1st of January.

Prashant Kutty: On the Building Product segment if you could tell us what is the share of the Premium Product Portfolio over here and what would have that grown at?

R. B. Kabra: The Premium Product Portfolio as I have been mentioning that this has been growing every year by 1-2%, so currently it is around 58-59%, this was 56% last year. And I will again clarify that this might over a period of time grow up to 65% because the country is not only buying premium products, country also buys basic products, standard products. So we expect that over the next 3-4 years it should go up to 65% but growth is always higher at the premium end than the standard end.

Prashant Kutty: So one can actually assume that hereon we can easily expect about a 15% kind of a growth rate or topline number for the Building Product segment?

R. B. Kabra: Yes, that's what the guidance we gave that the Building Product Division should be growing anywhere 12-15% that is the guidance we said and we maintain that.

Prashant Kutty: Lastly on the Packaging Product segment, obviously if you look at the growth it's still a good number given the fact that it's still a 2% growth. But assuming the fact that you had a very high base of last year it is still a good number for that matter, so if you could just tell us has there had been any change in terms of demand apart from the fact that you mentioned about the speciality color glass.

R. B. Kabra: I have been mentioning I don't know whether you ever heard me talking.

Prashant Kutty: I did hear that part.

R. B. Kabra: That the glass business if you talk of the quarter two is the poorest quarter, quarter three and quarter four are the better quarters and that depends that when the Coke and Pepsi people start buying. Sometimes they start buying from October, sometimes they start buying from November depending on when the weather for their purchases sets in. So you have to see the numbers based on H1 and H2 otherwise you will get confused. If you see quarter three versus quarter three or quarter four versus quarter four then one-year quarter four could be very high quarter three could be low, one-year quarter three could be very high quarter four could be low. So I think better way is to analyze H1 and H2 for the glass business. And we see that there is no growth till now in terms of volume in the glass business but going forward we see because the pickup has just started because sometimes when the pickup starts late the results comes in quarter four, if they start early the results come in quarter three.

Moderator: The next question is from the line of Umesh Raut from Equirus Securities. Please proceed.

Umesh Raut: Just would like to know the industry size for the Consumer Division products? As you said 5% market share is there for you during the quarter.

R. B. Kabra: 5% I said was for the Geysers.

Umesh Raut: So how big is this market?

R. B. Kabra: The market for the country including the small brands and regional brands is around 1500 Crore but the organized is around 500 Crore.

Umesh Raut: On pricing have you taken any pricing action during the quarter for sanitary business?

R. B. Kabra: No.

Moderator: The next question is from the line of Sunil Kothari from Unique Investment. Please proceed.

Sunil Kothari: Congratulations on a very good cost management and profitable improvement.

R. B. Kabra: Thank you Sunil.

Sunil Kothari: Just wanted to have a little bit more color on these three fields which is our new Water Heater, Kitchen Appliances and Air Purifier, these three segments we entered during the last six months or 12 months.

R. B. Kabra: Kitchen Appliances we have been for 4 to 5 years, so Kitchen Appliances we had 2-3 product ranges which were the Kitchen Chimneys which are known as Hoods and we had high end Hobs and some Cook Tops, those were the only product lines what we had for 4-5 years and now we have added the Geysers in the month of September and then we added Air Purifier in the month of December.

Sunil Kothari: I wanted to understand what is the scope of this business over the next 3-5 year period? How is the market size and what our objective is over the next 2-3 years to achieve the market, like you said Faucet 10% market for Hindware is very logical.

Sandeep Sikka: If you see this overall market which we call it as an Appliances market or a Brown Appliances market is around (+10,000) Crore, people talk around 15,000 Crore also. And these are more of selling through electrical counters wherein all this could be sold predominantly. The Company last year had around 100 distribution network which as on date has already expanded to around 200. We have doubled that and we are expecting that in a year from now we will again double it from 200 to 400. On the Retail touch point last year we were around 600 now we have Retail touch point of around 2800 we expect by March 2017 we expect this to double from that figure again. When you go to the market expansion there is an investment which is in terms of a separate manning, separate sales team, salesforce, after sales service team, there is infrastructure, separate godowns, separate warehousing, supply chain, etc. So on manning we are also strengthening from 40 people, we have already come to (+) 100 people salesforce and we are trying to strengthen another 150 numbers by next year. The objective of this business is to set a separate vertical on a high end market wherein consumer gets a product which is a value added for him. We are not touching the base of the pyramid which is a volume game, we are more proposing a value game for our consumer and for that we are aligning with best of the people in the market. For like Water Heater, we have aligned with Atlantic, which is one of the leading companies out of France and for Water Purifiers we are talking to one of the Berkshire Hathaway Company, Warren Buffett Company, by name of Marmon Group. So like this, we will be launching a number of products over a period of time and the focus is to create value proposition for customer and create the products around that.

Sunil Kothari: So broadly over a period what type of size this business can have? Just to broadly understand the potential of the business?

Sandeep Sikka: In the next 3-4 years we are targeting the size of somewhere around Rs.450-550 Crore.

Sunil Kothari: Combined all these things Water Heater, Kitchen Appliances and Air Purifier?

Sandeep Sikka: No, this will have number of things added. We are adding products. We had started with the Kitchen and Hoods and Hobs which was already there in this business initially. In July we added Water Heaters, in December we have added Air Purifier and now in March or April we will be doing the Water Purifier. Water Purifier market is itself is a big market, it's a market which is more than (+Rs.5000) Crore market today and it is still to catch up. And we are walking along with a very strong technology base with our partners to have a leading edge as compared to the competition.

Moderator: The next question is from the line of Krishna Kumar from Sundaram Mutual Fund. Please proceed.

Krishna Kumar: Could you talk a little bit about the competitive pressure in the Building Products industry? Different companies have registered varying growth rates and also companies in Plywood Segment, etc., have been probably stagnating also. So could you just talk a little bit about how the outlook is?

R. B. Kabra: If I say the industry perspective, there are two segments as we have been always telling, one is the Institutional segment and one is the Retail segment. The Retail segment we cover the individuals who build homes, the individuals who renovate their homes and the small builders who build around 100 flats, 150 flats and 10 flats or 20 flats and sells. The Institutional segment is hospitals, hotels, large builders who built 1000-2000-3000 flats. So Institutional segment is slow for the last one, one-and-a-half years as we all know because the Real Estate market there is no pick up till now and we don't see anything happening on big way especially bigger markets like NCR as we call it. But I think it's good in Pune as I just mentioned, its good in Bangalore, but our share in Institutional segment has come down because, number one, there is a less pick up and, number two, we have become very careful in terms of payment, we don't extend long credits now because the liquidity crunch and we want to make sure that if we supply, our money comes back to us, so only supply against post-dated cheques even if we have to supply on the credit. So that is reducing, of course, but on the other hand the growth what we have is largely from the Retail. So if I tell you the individuals who are building homes they are continuing to do. The renovation if it is done, like renovation which is the new thing and still around only 8-10% of the total Sanitaryware produced in the country goes for renovation so there is a big market for the renovation to happen. And I think now with the income levels rising the renovation is picking faster especially marriage in the family is okay till now, if there is a marriage in the family earlier people used to only whitewash or paint their homes, but now at least they redo the bathrooms as well, so that is picking up, that is another part. And the small builders who are not over leveraged they built 20 flats or 4 floors or they build 100 apartments in the Tier-2, Tier-3 cities and they are not over leveraged and they are doing well. So that segment is doing well but of course the large builders they are still not seeing any kind of pickup.

Krishna Kumar: In terms of pricing have you been able to take any hikes or you are just maintaining your flat pricing for some time?

R. B. Kabra: The prices we increased 8-9 months ago. So normally we do one price increase in a year and sometimes we do two also in a year if there is cost pressure but currently because of the fuel prices going down there is no cost pressure as such so I don't think we are looking for another price increase in this financial year.

Krishna Kumar: The Glass ware is there any pricing pressure from the end-users given that we have had savings in fuel and energy cost? Are we seeing any request for price cuts?

R. B. Kabra: Don't give this idea to any of our customers Mr. Krishna Kumar because in Glass or in Sanitaryware once the price has gone up it is never cut. The price has never gone down, except sometimes if there is a large buyer and he really insists then maybe sometime 1% or 2% discount is given but the prices are not reduced in general. So we have not seen any pressure in terms of pricing that is why the margins if you see 3-4 quarters margins has been growing up and that margin is coming from the cost benefits what we are receiving. Prices have not gone up that is also right in the last one-and-a-half years, so the price increase what we had was October last year. So the prices have not gone up as well but the prices don't go down.

Krishna Kumar: On the new businesses that we are trying to build out on the consumer side what would be the kind of breakeven level in terms of what kind of revenues would we require to look at our kind of comfortable breakeven on profitability?

Sandeep Sikka: The sales breakeven levels works somewhere around Rs.175 Crore to 200 Crore.

Krishna Kumar: For a product or for the…..

Sandeep Sikka: Not a product, because the underlying fixed cost is for the entire infrastructure so you need to create the entire subset of teams and that team cost is common so you keep adding products over a period of time and most of the products which we are doing here we are targeting our gross margins somewhere in the range of 30% to 40%.

Krishna Kumar: What will be the challenges that you are facing in the market since we are new into this distribution line which is the electrical stores and consumer chains, any challenges that you see?

Sandeep Sikka: Challenges may not be there right now, maybe I think two or three years down the line, because our strategy here is very different like we are not going into the mass segment, we are not attacking at the base of the pyramid as I said. So we are not interested in a volume game but more interested in now value game and we are working with very strong technology partners and on the strength of the product and that's why when you talk about Water Heaters the absorption of the product in the market has been very well acknowledged and we feel that most of the other products especially the Water Purifier which is a very niche market and a very good market and people are ready to pay the price for a good product and if it creates value for him.

Krishna Kumar: In terms of the Water Purifier what channel of distribution are we planning to use?

Sandeep Sikka: It will be the same counters as we are selling through, so it is not direct home selling, so it will be the distributor and the retailing model.

Krishna Kumar: Have we launched all our products on e-commerce websites also?

Sandeep Sikka: Air Purifiers initial phase we launched only through the e-commerce which is Amazon and Croma.

R. B. Kabra: These products, of course, will be available on e-commerce.

Moderator: The next question is from the line of Jaspreet Singh Arora from Systematix Shares. Please proceed.

Jaspreet Singh Arora: A bit of update on the upcoming CAPEX on caps and closures and CPVC pipes, is it on track for March 2017 commissioning?

Sandeep Sikka: Yes it is on track and on the caps and closures side we have done the market testing of the product also so that has been successful. So we expect the commercial thing should start by the end of the financial year 2016-2017.

Jaspreet Singh Arora: On both sides?

Sandeep Sikka: On both the projects.

Jaspreet Singh Arora: What could be the CAPEX numbers as we stand today for this year closing and next year, overall?

Sandeep Sikka: It gets difficult to determine a CAPEX spend for this year and next year separately but the approved CAPEX are in the range of around Rs.320 Crore in totality.

Jaspreet Singh Arora: So let's say this would be from January of 2016 for the next 18 months?

Sandeep Sikka: So you take it from May of 2015 to 31st March 2017.

R. B. Kabra: Just to add on what Mr. Sikka has just mentioned that there are two continuing projects which is the enhancement of Brownfield capacity at Bibinagar and Bahadurgarh both adding 4 lakh pieces CAPEX for which was around 42 Crore, so that work is going on, so it is also part of the approved CAPEX, out of 42 we have spent only 20 Crore till now because we are little going slow because of the market conditions being as such they are. Okay, these were planned for the last year but we are going a little slow on this so part of this this will also come in the next financial year. And these two large CAPEX are for the CPVC and the closure project which you are all aware of the numbers and then we have those maintenance CAPEX and some balancing equipment CAPEX, so that put together its 320, so let us not get confused that 320 is suddenly coming in.

Jaspreet Singh Arora: So over and above this 320 this is 42 Crore or is it including that?

R. B. Kabra: This is part of it that is what I am telling.

Sandeep Sikka: 320 Crore around is the overall…..

Jaspreet Singh Arora ….including the 32, alright.

Sandeep Sikka ….including 5 projects, including caps and closure project and ongoing maintenance CAPEX as well as the capacity expansion of the Sanitaryware plant and the glass maintenance cost also.

Jaspreet Singh Arora: Our recent proposition to raise the NCDs if you could highlight something on that in terms of what is the amount that would be plan to raise and its primarily towards funding this CAPEX?

Sandeep Sikka: So what we are planning here is because as I told in the last call also the total long-term debt of the company which was around Rs.550 Crore as on 31st of March 2015 will come down to a level of Rs.300-325 Crore as on 31st March 2016. We will have a normal repayment of 125 Crore each for the next two years. So by March 2017 major chunk of the existing long-term debt will be paid off. So for this new CAPEX since we are already a high tax paying company now, our tax bracket is coming under around 36% so we are proposing another $ 40 million around equivalent of ECB and the Rupee debt. We will use a mix of around 50:50 both maybe or maybe we can use full ECB. We will raise around $ 40 million of ECB equivalent and as of now in principle terms sheets we have, this will be around an 8-year door-to-door ECB with 3 years of moratorium and then 5 years balloon repayments.

Jaspreet Singh Arora: So this is $ 40 million ECB plus Rupee?

Sandeep Sikka: No. I mean including that. Total, so it could be mix of both. The amount is around Rs.225-250 Crore, it's of Indian currency loan as well as the ECB loan depending on what we find better. Next year onwards there will be surplus because till now major chunk of EBITDA was going towards servicing interest as well as the repayment and as the repayment obligation is reducing next year and also that interest cost has already gone down, so free cash will be available.

R. B. Kabra: The total loan of Rs.1000 Crore which we had in March 2014 is now only around 600 Crore, so Rs.250 Crore of the equity what we raised has been paid and 150 has been paid from the internal accruals including Working Capital. Even 1000 crore included Working Capital, so if you only talk of long term it is only 0.3:1. So it's very strong debt equity and I think for these new projects even if we raise loans it will be still below 1:1.

Jaspreet Singh Arora: And suffice to say that given the products and the segments that you have mentioned in the call and also in the last three quarters we have our hands full for the next couple of quarters in terms of new product opportunities that you are exploring?

R. B. Kabra: Yes we are exploring as we mentioned that the CPD will be seeing launch of new products as Mr. Sikka just mentioned, so we will continuously keep working on those lines and Sanitaryware of course we keep adding new designs, new products, faucet plant which was commissioned July 2014, at the run rate the capacity utilization is around 60% by March we expect it to be 70%, 75%, by September we expect to go by 90%, so we will keep adding new product lines, new designs, so that we'll continue to do.

Jaspreet Singh Arora: Lastly on the margins and packaging products, you have already given enough information but just to reiterate since it's a multi-quarter high, the 15% EBIT margin its spectacular, so primarily it's a function of the low gas prices and the price hikes fully absorbed by now and also is it still that 3 furnaces are running at 80% utilization?

R. B. Kabra: Three furnaces are now running at around 85-86% capacity utilization.

Jaspreet Singh Arora: So you have broadly reached a pretty good number which you had targeted or there is still some scope of improvement that one could look at?

R. B. Kabra: The capacity utilization can go up to 90-92%, so like last time we said that the fourth furnace which is shut down we expect it to start by December this year which we are not doing because as I just mentioned quarter two is the poor quarter so any time if the furnace has to start that will happen anywhere in any year at the August-September time so that we are ready for the quarter three and quarter four which are the highest selling quarters. So you will not see the furnace starting even till August this year and we have to see how the market grows, if the demand suddenly goes up with the consumer sentiments improving or consumption going up or there could be various reasons for it, then we can start the furnace otherwise we will continue to do we are because the inventory buildup in quarter two is normally sold in quarter three and quarter four. So you will see the Working Capital utilization glass in terms of inventory coming down.

Moderator: The next question is from the line of Sameer Tulsiyan from JM Financial. Please proceed.

Sameer Tulsiyan: What is our business mix currently in terms of Building product Division, in terms of how much is Sanitaryware, Faucet and others if you see?

R. B. Kabra: The Sanitaryware which used to be 67% has now come down to 62-63%. Faucet is around 23%, the Consumer Product is around 6% and balance are allied products.

Sameer Tulsiyan: If you were to see the volume growth like in Sanitary Ware and Faucet how have they been? Should we consider that almost all the growth is like…

R. B. Kabra: Actually now we have stopped pressing the volume growth because as we have been mentioning for the last few years the growth has been coming more and more from the value-added products, so we are concentrating more on the value than the volume and that will be the philosophy even for the Consumer Products.

Sameer Tulsiyan: What percentage of Sanitaryware and Faucet is outsourced currently?

R. B. Kabra: Faucet is still around 40% volume which is still outsourced in terms of value, like I should not say volume, but we will continue to outsource that because the Faucet is 3-4 product ranges, one is the faucet, one is the shower heads and shower accessories, then your bathroom accessories like towel rails, towel racks, so the plant we have put up is only for manufacturing faucets which is made from the brass metal by melting the brass, casting it, machining it, grinding it, polishing it and chrome plating it, but we still don't have facility for plastic injection molding for the shower which we locally source and import also. We will continue to do that. Similarly we have not put a facility for manufacturing accessories which are like towel rails which are made from sheets and rods and pipes so that we will continue to outsource. And also some volumes which are very low and which we think that we are not very cost effective in terms of production we will continue to outsource. So the Faucet business as such, not really Faucet but Faucet business as such consisting of faucets, shower heads, the pipes and everything as well as the accessories we will continue to outsource these.

Sameer Tulsiyan: How have the revenues been in the Home Retail and QUEO?

R. B. Kabra: QUEO growth is very good but the base is small so QUEO growth is the highest growth in terms of brand wise we talk of.

Sameer Tulsiyan: I missed the investment part and new businesses, what kind of investments is expected let's say in the current year and going ahead in terms of new businesses, in terms of might be staff cost or advertisement expenses?

Sandeep Sikka: This investment which we are talking is other than the CAPEX number so investment is more into the Consumer business as we said initially. And we expect that in 15 to 18 months this investment should be somewhere around Rs.25-30 Crore, since we can't capitalize this as per the Accounting Standard so it has been charged to the P&L. And we expect the breakeven level in this business to be somewhere around 175-200 Crore of sales with an operating gross margin ratio of between 30-40%, depends on product to product. And in the next 4 to 5 years we are seeing a turnover coming from this business, we are targeting around Rs.500 Crore.

Sameer Tulsiyan: So this 30 crore investment is over….

Sandeep Sikka: Spread over next 18 to 20 months.

Sameer Tulsiyan: Is there any ad campaign going in Sanitaryware or in Faucetware, or like the 16.2% if you see the EBIT margin for the current quarter should we see it like this it is not in the range of 18-20% the normal range due to the investments in the new business?

Sandeep Sikka: Yes. If you see quarter-on-quarter otherwise would have grown by a few percentage points.

Sameer Tulsiyan: What were your current Working Capital days like?

Sandeep Sikka: Each business has its own but when we try to compare the BPD per se, so it operates on a net Working Capital of odd 100 days on a net basis.

Sameer Tulsiyan: What would it be for glass now?

Sandeep Sikka: Glass is also operating in the similar range of around 120 days. What happens is glass there is an inventory buildup till December and major chunk of inventory gets sold out in the fourth quarter as the summer picks up.

Moderator: The next question is from the line of Kamlesh Kotak from Asian Market Securities. Please proceed.

Kamlesh Kotak: How is the utilization in the Sanitaryware plants?

R. B. Kabra: Sanitary ware plant utilization, there are two plants; you want plant-wise all you want total? Plant wise, Bibinagar is around 92-93% and Bahadurgarh is around 84-85%.

Kamlesh Kotak: You said the Brownfield expansion would come by when?

R. B. Kabra: Brownfield expansion, the buildings are ready, we have to put in the equipment. So Bibinagar should be operative by July-August this year and Bahadurgarh by end of March next financial year. Bahadurgarh we have enough capacity currently that is why we mentioned that we are going little slow. Bibinagar because they are all already running at 92-93% capacity utilization the new capacity building is ready so we are in the process of putting equipment and everything should be operational in the next 4 to 5 months.

Kamlesh Kotak: CPVC plant what is the status, where is it going to come up and when is it going to commission?

R. B. Kabra: CPVC and closure plant both are coming in Telangana. You are aware that we have that Raasi business took over 1998, closed down and moved that production to Bibinagar location. That Raasi land was land available with us as a surplus land. Both these facilities are coming on that land near Hyderabad.

Kamlesh Kotak: When CPVC plant is expected to start commissioning?

R. B. Kabra: Both plants, the commercial production we are expecting by March 2017.

Kamlesh Kotak: About our Gujarat land it is completely on the back burner?

R. B. Kabra: Gujarat is currently on back burner because the Sanitaryware market growth has been very sluggish than what we have been growing. So last 2-3 years has been poor in terms of Real Estate as you all know so that is why we decided that in place of going to the new plant it is better to go for Brownfield expansion at the existing capacities, it is more cost-effective in terms of CAPEX and in terms of running cost as well. So we are doing this which will be sufficient for another 2-3 years. So maybe we have a re-look by middle of next year that how the things turn out, everybody says that market should be improving by first half of the next financial year, if that happens then we will start the work otherwise we have this philosophy that first we should have customers and then put the capacity otherwise there is a pressure, you put up capacity and then we run helter-skelter here and there to sell products and there is a pressure on the margin, pressure on the pricing and everything, so we don't do that.

Kamlesh Kotak: About our Retail Evok business how has been the quarter?

Sandeep Sikka: It's almost a flat quarter.

Kamlesh Kotak: So are the losses subsiding?

Sandeep Sikka: Losses were also there on the EBITDA side.

R. B. Kabra: More or less the same, performance at level if you talk of we are running at the last year's level.

Kamlesh Kotak: Any color or Garden Polymer how that segment of our glass business?

R. B. Kabra: Garden Polymer, the overall base is coming down but in terms of value not in terms of volume because the PAT prices have gone down, that is true for all plastic companies that volume remaining same at the topline is coming down. If you talk of topline yes it is down by a few percentage points but the EBITDA margins are protected because whatever the prices in the market move as per the price of the PAT resin.

Kamlesh Kotak: Lastly, how is the competitive environment in Sanitaryware products because the market is really subdued and I hear many players have launched new products across this product category from Sanitaryware, so how has been the competitive environment?

R. B. Kabra: Competition has been always there, we were never the monopolistic producers in the country. Even when 1963 when we launched the product there was Parshuram, there was Khodiyar, there was Parryware who were selling products. So competition has been always there and even if you talk of imported brands they started coming in as early as the 1991-1992. American standard was the first brand which came into country in the year 1992-1993 by importing and selling it here. So we have been surviving and we have been working against the competition since beginning and of course because of the new international brands coming in the area is hotting up especially but that is in the top segment or the luxury and premium segment. If you talk of the standard segment, or if you talk of middle segment but then we, Parry and Cera, all three occupied the market of this particular segment of the products. We have been existing for more than 55 years so I think there is not special pressure which has come, I can say that. Pressures have been always there and we have been meeting by advertising, by brand building, by extending our reach in terms of adding the number of dealers, adding the product lines, so all that we continue to do.

Kamlesh Kotak: How has been the inventory in the channel system? Is it been normalized or still there is some…..

R. B. Kabra: Inventory system in the channel is normalized one year ago when we mentioned to you that we have stopped pushing the product. So now actually everybody is smart, we are in the business for 55 years, I think 50-55% of dealers are with the company for more than 30 years, so their new generation has started coming into the business and everybody calculates ROCE and everything, so they are as smart as we are. Earlier the people who were kind of dealers, they never calculated their ROCE; they were in the business that was good enough. So the inventories in the channel has corrected and now since earlier we didn't have depots, now for a few years we have depots in each state, now nobody stocks too much inventory.

Moderator: We will take the last question from the line of Prateek Shah from Antique Stock Broking. Please proceed.

Prateek Shah: I wanted the number for the Consumer Products Division in this quarter? What was the Revenue contribution?

R. B. Kabra: We cannot share but as Mr. Sikka mentioned, the run rate will be around 100 Crore a year.

Prateek Shah: So it's fair to assume that 30 Crore was this quarter?

R. B. Kabra: You can assume whatever you want.

Moderator: Thank you. I now hand the conference over to the management for HSIL for closing remarks, over to you.

Sandeep Sikka: So think it's good but in terms of overall perspective of the industry, the medium to long term market projections appears to be strong, especially that there are lot many initiatives which government is running including under the CSR, where people want to invest money under various initiatives and Sanitation is one key area where the entire focus is coming up. The per capita increase in the income over last few years which has happened in India, now India is one of major economies which is still growing, so we feel pretty strong that in times to come, the masses will start using more sanitation and as people move upwards, they will be inclined to using the brands and the company should get the advantage in the medium to long run. The long-term story of the sanitation and other items is intact. From the Packaging Products side, right now the market is challenging but I think the team internally has done good work in terms of creating efficiencies on the production side and we are confident the numbers will continue. And the big part on the Packaging side is that the major debt which was availed around 3 to 4 years back for funding the CAPEX plan of the Packaging Products has been repaid over last 2 to 3 years, so major chunk of that debt would be retired by this year and also by the end of next year. The risk relating to the business has relatively come down and the business is throwing out a regular EBITDA, so it should fetch its own valuation also over a period of time. I think with this Mr. Kabra you would like to add something on the closing.

R. B. Kabra: I think that's all.

Sandeep Sikka: Thank you everybody for joining us today. Wish you all the best.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of ICICI Securities that concludes today's conference call. Thank you for joining us and you may disconnect your lines now.