



“HSIL Limited Earnings Q2 FY 2016  
Results Conference Call”

November 5, 2015



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**Moderator:** Ladies and gentlemen good day and welcome to the HSIL Q2 FY 2016 Earning Conference Call hosted by ICICI Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” and then “0” on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Vikash Mantri of ICICI Securities Limited. Thank you and over to you Sir!

**Vikash Mantri:** Good afternoon everybody. We at ICICI Securities are pleased to host the Q2 FY 2016 conference call for HSIL. We have with us the senior management of the company represented by Mr. R. B. Kabra, President, Mr. Sandeep Sikka, CFO and Mr. Anil Chandani, Senior Vice President, Corporate Finance. Over to you Kabra Sir for initial remarks!

**R.B. Kabra:** Thank you Vikash. I welcome all of you on this conference call on our Q2 results. As we have been now having this call after every quarter for last many quarters where we entrust and try to disseminate information whatever is possible to do and now I am handing over to Mr. Sikka to give you the brief of this quarter and H1 how we have performed. Thank you.

**Sandeep Sikka:** Good afternoon everybody and welcome all to the call. I will just highlight first on the financial numbers. Although I understand of you would have gone through numbers also given to the exchange and also published in the newspapers today. So company for the quarter two ended September 30, 2015 achieved gross sales of 445.63 Crores as compared to last year corresponding quarter of 443.74 Crores and this represents marginal growth of 0.42%. EBITDA for the quarter as compared to last year is almost flat at Rs.76.73 Crores. Interest for the quarter is 9.18 Crores which is around 51% lower as compared to last year interest numbers. EBITDA margins for the company as a whole for Q2 of the current financial year are 18.55% which is up from 18.35% which we did corresponding period last year. In terms of the businesses we have two divisions building product division and a packaging product division and in terms of the segmental reporting the sales of building product divisions for the Q2 and H1 was 240.82 Crores and 442.06 Crores and this represents a growth of 8.55% for quarter and 7.51% for half year

respectively as compared to previous year. EBIT margins for Q2 and H1 for the current financial year was 15.79% and 15.03%, which is down from what previous year corresponding number of 18.89% and 20.07% respectively. EBITDA margins for BPD divisions for Q2 was 18.3% as compared to Q1 figures of the financial year of 17.02% so based on sequential quarter EBITDA margins has grown slightly by around 1.3% but however when you see quarter-on-quarter number for last year EBIT margins are lower in the three divisions on account of higher selling expenses which was predominantly due to the fact that we started with the media campaign somewhere in June but it continued till July in middle and the early part of August and also to the basic infrastructure which we are trying to create for the consumer product business wherein we are selling kitchen, water heaters and other things and also due to the ramp up of the capacity utilization at the new faucet plant at Kaharani.

The sales for packaging product division for Q2 and H1 are Rs.172 Crores and Rs.378 Crores as compared to previous year corresponding figure of 194.62 Crores and 411.83 Crores, which was slightly down as compared to previous year. The EBIT margin for the packaging product division of Q2 is higher. Q2 and H1 of the current financial year is 10.82% and 9.21% up from 7.06% and 4.61%, so incremental around 3.8% growth on quarter-on-quarter. As already was told of interest for Q2 and H1 is down substantially around 51% and 45.5% as compared to previous year. On account of the normal debt repayment which happened in the last 12 months year-on-year and also on the lowering of the debt on account of the QIP process which company did in March 2015. In the last 12 months the debt decrease on account of debt repayment is around 380 Crores but this is the balance sheet number. So this adjusts the exchange fluctuation as the company is utilizing the foreign currency loans. The debt equity of the company which was last year at around 1.5 on September 30 2014 1.5 times is now at around September 30, 2015 is at 0.68. Profit before tax is the Q2 YoY has grown by around 35%. Profit after tax for Q2 and H1 for the current financial year is 24.33 Crores and 41.68 Crores, which represents a growth of around 27.6% and 22% as compared to the previous year figures. So this was a more or less the broad financial summary although you would have interpreted this from the results but I thought we will communicate to you. I will just hand it over to Mr. Kabra in terms of giving a brief development for the overall industry on how the industry worked.

**R.B. Kabra:** Thank you Mr. Sikka. As all of you must be knowing that we are in the two business segments. One is the building product and the other is packaging division. Building products BPD division largely consist of sanitaryware, faucets and other allied plastic products and packaging product division consists of around 90% being the glass bottle business and 10% around being the pet bottles. So coming back to the building product business as you all are aware that most of the industry sector because of the consumption being low and not a good response from the consumers not only for the consumer durables but also for the FMCG sector the growth numbers are lower for most of the companies whose results have come which reflects that the growth for the bathroom industry which was expected around 15% to 18% is slowing down and this is proven by results of most of the company which are out by now listed company and on the ground also the extend is low and for the packaging product division the revenue is negative because of the consuming industries which buy bottles for packaging. Their growth is also less or it is a negative side especially the beer demand is very little and some of the liquor buyers they are also buying less and for this some reasons are attributed to the state policies where taxes have been increased substantially and because of this the liquor and beer has become costlier for the consumer and the consumption is going down but we expect that the coming time the industry should improve. The hope is there for everyone and everybody is hoping that in times to come with the various kinds of action the government is taking. The consumption should improve. The interest rates which was cut by 0.5% has been now largely passed on but I think the users for the housing sector they are still waiting for more interest rate cuts before they really start putting in money for buying the homes especially the builder segment and that is true that the real estate business is not doing too good today and we our building product division being affected or directly affected by the real estate sector. It is in the lower growth than what was expected but we are hopeful that some things will improve as all world rating agencies and all world financial institution IMF world bank everybody saying that in the agent of good wicket and continue to grow around 7%, 7.5% this year GDP growth and next year everybody is predicting that India will be the fastest growing economy. So even we are hopeful that things will improve and things should be back on track in times to come that is where we are. Now we are open for question answer please.

**Moderator:** Thank you Sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Anshuman Atri from Espirito Santo. Please go ahead.

**Anshuman Atri:** Thanks for the opportunity. My question is regarding the building products. Is it possible to get volume details for sub-segments like sanitaryware and other which we sell under building products and what is the kind of mix between Tier I versus Tier II, III cities and how are we seeing the demand in different, different markets.

**Sandeep Sikka:** As a matter of policy like company has not been disseminating the volume numbers per se but in terms of mix.

**R.B. Kabra:** I think in terms of mix as we have been mentioning that normally the institutional segment and the retail has been 70:30 and more or less this is again around the same number the institutional numbers coming little bit down or little, little bit going up so that remains more or less in the same ratio. The volume little we have not been disclosing now for the various reasons as per the guidelines. So we are sorry so but we are not able to disclose that.

**Anshuman Atri:** Okay Sir this 70:30 70 is institutional and 30 is retail.

**R.B. Kabra:** No it is reverse the institutional is 30 and.

**Anshuman Atri:** 70 is retail okay and if you could give the growth rates in the Tier I versus the Tier II, III cities and the mix of sales between Tiers I versus II, III cities.

**R.B. Kabra:** If we talk of large 100 cities that give us a 80% sale. So 100 towns give us 80% sales but if you talk of top 10 towns in the country that gives around 30% sales.

**Anshuman Atri:** Okay and in terms of growth how the demand and the.

**R.B. Kabra:** That is the mix because totality every area is growing but like if you talk of growth may be Delhi is not growing but if you take NCR then it is growing may be Mumbai is not growing but you take Mumbai, Pune then that particular thing is growing. The Bangalore is growing but Hyderabad is not growing as much. So its mix so if we segment like top 10 towns out of 100 towns of particular region then there is no negative anywhere.

**Anshuman Atri:** So how much is the exposure to say builder segment which would be say stressed out currently having liquidity crunch.

**R.B. Kabra:** When we say 30% institutional I just mentioned that covers.

**Anshuman Atri:** Okay of that 30 how much of them are well of and how much facing issues in terms of the.

**R.B. Kabra:** After 2008 and 2009 when the whole world melted and India affected badly and especially the real estate sector that time we took a quality decisions that we will not be in future supplying material to builder from clean credit. We will do with postdated cheque, time could vary in place of 30 days somebody might be in 60 days or somebody might take 75 or 90 days depending on the volume of the business but all current supplies are against postdated cheque. So we feel that we are secured in terms of our outstanding.

**Anshuman Atri:** Okay thanks a lot Sir and all the best.

**Moderator:** Thank you Mr. Atri. We have a next question from the line of Prashant Kutty from Emkay Global. Please go ahead.

**Prashant Kutty:** Thank you Sir. My first question is regard to the building product segment if you actually give us what is growth in the sanitaryware segment and in the faucet segment.

**R.B. Kabra:** Prashant that is the issue I just mentioned that now we are not disclosing or not discussing the individual product wise numbers.

**Prashant Kutty:** Okay at least if you could give us anything qualitatively in terms of in the sense.

**R.B. Kabra:** Yes qualitatively is very simple like we commissioned Greenfield faucet plant last year though and we are there is all out offer in terms of growing the faucet sales of that brand capacity utilization improves. Faucet growth is higher than the sanitaryware.

**Prashant Kutty:** Okay Sir it continues to be higher.

**R.B. Kabra:** Yes.

- Prashant Kutty:** So if would be fair to say probably is going at let us say double the rate of sanitaryware or something of that sort any such instance that Sir.
- R.B. Kabra:** I think you..
- Prashant Kutty:** No issue Sir second if you look at obviously this the Q2 I believe over the quarter when you actually seen a last year Q2 were actually seen a negative growth rate number and if I am not wrong the effect of tiles segment is also over in the last quarter itself. So obviously coming two quarters we are having a base of about 7% kind of a growth rate numbers I mean how confident are we that probably this growth rate numbers could be moving towards the double digit number, any actions that we are specifically taking towards those fronts if you could probably give us some sense in that side.
- R.B. Kabra:** So like I just mentioned the real estate sector is not looking too positive, so we expect that the sanitaryware faucet business should be growing the rate at which is growing. We have started the consumer product division this is around 2.5 year's old division where we were selling the kitchen goods which are chimney exhaust at homes and the cook tops. Now we have created this was part of I mean our sales team was selling it. Now we have created a separate vertical we call it consumer product division under the building product division. We have added the Geysers and we started selling Geysers from July onwards. The response from the market is extremely good for this particular Geysers model what we have launched. I repeat that we have tied up with the Europe manufacturer of water heaters Atlantic and they are manufacturing for us with the joint branding of Hindware Atlantic we have started selling in the market and we already have 1000 outlets for selling Geysers for us in four months of launch. At that base being very small and growing more than 100, 150, 200 stand. We are confident by end of year we should be in double digit growth numbers.
- Prashant Kutty:** Should be in double digit growth numbers. Okay and secondly just a clarification so in general is the so obviously this is for us as obviously we have a very low base over here as far as Geysers or anything is concerned but in general is the industry growing let us say faster than the sanitaryware industry or if you can probably help us on that side.
- R.B. Kabra:** More or less we are seeing that the Geysers also to do quite well 15%.

**Prashant Kutty:** Right great and Sir secondly on the packaging product segment obviously if you look at the margin profile it is better than the previous quarter in terms of the EBIT margin profile. If you could actually help us understand most of the gains on account of the fuel mix is actually is it done with or what is the expectation for the coming half and probably the year after that in terms of the margin profile as far as the segment is concerned.

**R.B. Kabra:** So coming to the fuel there are two kinds of advantage which we have been taking of. The one was conversion to Pet Coke from the fuel oil that is all done. So that advantage is already accounted for. Second is the LPG which we still use on the fronted of the furnaces where we cannot use Pet Coke or oil and there has to be clean fuel when the glass is actually flowing into the machines. There we have been using LPG. Now LPG being a product which is a free product pricing in the market, which is driven by the market forces and the crude oil prices being low. The prices also come down substantially. So and that has been coming down like if you see from April this year and may be March last year to this year already down 25% and so if the crude prices further go down and the LPG prices come down there could be further advantage otherwise its all build in except this.

**Prashant Kutty:** So we might probably see this for let us say another couple of quarters or.

**R.B. Kabra:** I know how the crude prices will move.

**Prashant Kutty:** Assuming the crude prices stay over here and then would be get the benefits of this in the coming two quarters.

**R.B. Kabra:** I think marginal benefit in the coming quarters because if the prices remain at whatever level today is then may be the last quarter did see only part of impact because prices have been gradually coming down. So you can see the marginal impact but the prices remain at the same level I do not expect much improvement to be coming in.

**Prashant Kutty:** Okay so typically an improvement margin has to come in Sir fairly higher volume number coming in the second half.

**R.B. Kabra:** Historically you know that H2 is always much better.



**Prashant Kutty:** I was want to come to that in terms of H2 being the stronger quarter as far as glassware I mean stronger half of glassware is concerned are there any I mean any feel how is been that the initial pickup or something of that sort as far as the second half is concerned.

**R.B. Kabra:** Normally pick up starts by mid of November. The kind of indications we are getting from the customer that is what kind of lifting they are projected is positive but I think you have to still wait for a month to see that what kind of actually off take is there.

**Prashant Kutty:** Okay and Sir as far as my last question is on the capex side. So obviously as far as the capex is concerned both the new segments that is typically the pipes and the other one being on the cap side if you could just probably throw some light on that Sir to what the plans over there and I also had a question this regards that when we actually seeing a impact of the demand itself of the you said industry demand of the glassware segment how confident are you of that probably the security caption closures would actually be seeing the demand or yes you did highlight about the few customers being already asking for it but just you want just give us a fairly longer time trend in the same.

**R.B. Kabra:** Okay two new projects announced as one is for the CPVC pipes and another for the closures. So let us first discuss CPVC pipes. Earlier on the last communication we mentioned that we will be putting up this plant in Gujarat where we already have a land but now after study of the marketing agencies and they said that the demand for this product is much large in South India. We have decided to move that project to Telangana where also we have a surplus land with us. So now the project actually will be put up in Telangana state in place of Gujarat but there is no additional capex because Gujarat we also own a land. Telangana we also have a land. So the capex remain 105 Crores whatever but going forward that should give a 1% or 2% better margins because of the lower logistic cost which is one part of it and second advantage because the closure project towards also coming in Telangana because it has to be near to the glass project glass plant where the customer bases came and both being plastic product. There was a synergy in terms of raw material processing and other things. So both these projects putting side by side and the capex being more than 200 Crores now these projects are put together at one place and it is covered as a mega project by the Telangana state policy

which will give us some financial incentive in terms of power tariff and in terms of other subsidy from the government. So that is why both these projects have been lumped at one place and now been put up in Telangana. So that is the current status. The capex in terms of actual ground level will start happening only from the next quarter but that will be very little like giving advantage for the building so other things. Large capex will only happen in the financial year 2016-2017 and we expect now these projects to be commissioned by March 2017. So that is how it is now coming to the closure that you had a question that what is the demand. This is a special closure. These are not the caps or cost like things. These are a security closure. So that counterfeit products are not filled into the bottles like liquor people are quite concerned because India there is a lot of counterfeit people by empty bottles of Chivas Regal or XYZ and they filled the local liquor. So people are getting cheated. So all these bottlers were quite concerned and they have been asking for security caps. These caps have a special feature that as long as the cap is sitting onto the bottle after filling liquor you can only decant. You cannot refill into the bottle and once you take out the cap its get destroyed. So you cannot reuse the cap. So anybody buying a bottle without the cap can understand that this is a counterfeit product. So this product is in short supply. There is only two or three manufacturers in the country and they are not able to fulfill the requirement and we have been approached by some of our customer that if we go for this kind of a closure then there will be willing customers for that and we have been working on this development of this closures for last more than 15 months with some German engineers and German designers. We got the product right. We got the tested and then we got filed the patent and now the patent is in our name. So we are confident that the kind of capacities we are putting when we will be quite comfortable for selling it.

**Prashant Kutty:** Fine thank you Sir and all the very best to you Sir.

**R.B. Kabra:** Thank you Prashant.

**Moderator:** Thank you Mr. Kutty. We have a next question from the line of Nehal Shah from Antique Stock Broking. Please go ahead.

**Nehal Shah:** Good evening Sir.

**R.B. Kabra:** Good evening Nehal.

- Nehal Shah:** Sir on pipe side just to clarify whether this is only attributed to CPVC pipes or you would also add PVC pipes along with that may be later.
- R.B. Kabra:** Largely will be CPVC but the part of it will be UPVC also because see we are not going into the irrigation pipe or we are not going to the municipal pipes. We are only going for household pipes, which is the CPVC and UPVC. So may be up to 2.5 in size we will also making UPVC pipes.
- Nehal Shah:** Okay and Sir what would be capacity?
- R.B. Kabra:** 80% of the revenue we expect coming from the CPVC pipes.
- Nehal Shah:** Okay right and what would be the capacity for CPVC pipes.
- R.B. Kabra:** 30,000 tonnes.
- Nehal Shah:** 40,000 tonnes.
- R.B. Kabra:** 30,000.
- Nehal Shah:** 30,000 tonnes and bulk of the raw material will come in from the Thailand plant as and when it starts.
- R.B. Kabra:** Yes plant has started. We were sitting late in starting it but we have the agreement in place.
- Nehal Shah:** And by what time you expect the plant to commission by March 2017.
- R.B. Kabra:** March 2017 yes.
- Nehal Shah:** And Sir another thing in building product division obviously we would have some kind of base effect ratio with respect to tiles as well. So what was that figure in the corresponding quarter of the previous year.
- R.B. Kabra:** No I mentioned that largely we stop selling tile after the Q1 of last year. So Q2 of last year also had a very marginal sale of tiles because currently in the stock clearing mode. Once we decided that we will not be selling tiles in large volumes but you see there is always inventory because you are importing tiles. So we

stopped importing and buying after Q1 of last year. So even Q2 last year had a marginal sale and this quarter also had a very marginal sale of stock clearance. So it will not have any impact in terms of growth or anything for that but a negative or positive on the total building products business.

**Nehal Shah:** Sir just an observation while I was there at ACETECH exhibition there was obviously tiles which was exhibited there and what we also observed that there were new categories also new designs also launched within the tile thing and so that was one of the concern that is it that we have started again focusing back on tiles or is that just a matter of disposing of the older inventories because somehow we got the feeling that you guys have become some more aggressive and coming out with new designs as well.

**R.B. Kabra:** No I do not think that we are aggressively looking at tiles but say once we have to clear the inventory then may be just to complete the range they buy.

**Sandeep Sikka:** Just create ambience for the entire bathroom space there. When you create bathroom space you definitely put some tiles there but it does not mean you are selling your tiles as a part of the medium.

**Nehal Shah:** No the feedback actually which I got from few people some of your people being there at the exhibition. The feedback was completely different than what the management has been saying. So that was the only concern what I had. I got the feedback that the management might aggressively look at distribution going forward.

**R.B. Kabra:** I do not think that could be that is not the management.

**Nehal Shah:** Thanks a lot Sir.

**Moderator:** Thank you Mr. Shah. We have a next question from the line of Girish Choudhary from Spark Capital Advisors. Please go ahead.

**Girish Choudhary:** Good evening Sir.

**R.B. Kabra:** Good evening Mr. Girish. How are you?

**Girish Choudhary:** I am fine Sir how about you? My first question is basically on the margins of building products division. So first half of FY 2015 we say we did around EBIT margins of 20% and this first half of 2016 is come down to 15%, so basically how much would you attribute this to higher ad spend on let us say on any other specific things.

**R.B. Kabra:** There are two large things which has affected you call it EBITDA or EBIT margin in the building product negatively. One is the ad spend of hiring two big stars as the brand ambassador for two of our brands. Mr. Shah Rukh Khan for the Hindware brand and Jacqueline Fernandez for our Queo brand which is the luxury brand and a big burst in terms of TV ads and print ads in all this codings and everything which we have been doing for last two quarters and also doing repackaging and also doing the point of purchase material and the dealer showroom and everything. So all that is happening that is one part of it and second is creating infrastructure for the CPD division. So like I mentioned that largely now earlier breathing was sold by the same team as sanitaryware. Now once we created a separate vertical we are hiring manpower and we are entering into Geysers and we would also be entering into few more products for which we are exploring and we are in the process of working with people to import products which are suitable for Indian conditions. So going forward you will see some of the more products being launched under the CPD division. So we are created a manpower infrastructure sales team and everything for that. So that cost is also there. So if you talk of the EBIT for Q1, Q2 and H1 the Q1 EBIT for BPD was 13.8%, Q2 it is now 15.4%. So as I mentioned in my last call that as we go forward the margins will improve and come back to the level what we were there. So we already improved by 1.6% to 1.7% but of course the H1 seems lower because of the Q1 being best but I think going forward you will see the EBIT margins being improved regularly.

**Moderator:** Thank you Sir. We have a next question from the line of Achint Bhagat from Ambit Capital. Please go ahead.

**Achint Bhagat:** Good evening. Sir just one quick question; you mentioned that you will be incurring the capex on the counterfeit caps. So jut want to understand Sir that what is the competitive advantage here and what is the barrier to entry. So there are

multiple other large plastic process in our country and if you see opportunities that large what stops them from entering this business.

**R.B. Kabra:** Barrier to entry is the design. The largest manufacturer in India today is a European multinational and they have a world over patent on their design and they have more than 70% of the market share today of these caps whatever being sold in India. We are not able to supply the required volumes and as I mentioned it because it is a patent product nobody can copy this and that is the reason that it has taken us more than 15 months with the help of German engineers to design a product tested and then get a patent. So the biggest entry barrier is the design of the closure.

**Achint Bhagat:** Okay so you cannot so no other manufacture can come into design little bit here and there and makes the similar products.

**R.B. Kabra:** Cannot be done and also there is a continuous improvement like the multinational which is supplying only one security feature where the closure what we are now have developed is two security feature. So it is a improvisation on the existing product and it takes time. I mean coping is not only coping.

**Sandeep Sikka:** First investments which are going into the molds. The molds are very specialized and they are pretty costly molds. So a small manufacture in the unorganized sector it is not a possibility for him to invest too much amount in the molds for making a similar caps and closures.

**Achint Bhagat:** Sir actually what I was mentioning in terms of competition was that there are other larger plastic processors in our country. So just wanted to see whether there could be a possible entrant in this business at a later date or not fair enough. So Sir how as per your expect how big will this market be Sir. What is the addressable opportunity and what rate at this market being growing at.

**R.B. Kabra:** I think the total market size here should be because it is a new market if you talk about it because this product is in requirement. Right now there are few manufacturers and they are not been able to cater to the entire market but we feel that our project should be able to deliver some turnover I think somewhere around of 125 Crores plus once it gets fully implemented but the market growth can be substantial because once this product get introduced in a particular product then

the entire competition has to comply with the customer requirement in terms of counterfeit and other things. So the depth of the industry can be good as you move forward.

**Achint Bhagat:** And Sir how scalable is your plant let us say at a later date at the same location if you want to double the capacity then how much capex you have to incur and can you do it at the same land.

**R.B. Kabra:** Yes the same land is very big land. Land is not the issue but of course we will have to construct the building and we will have to buy the injection molding machines.

**Achint Bhagat:** Okay so again the 100 Crores capex double capacity.

**R.B. Kabra:** May be not 100 Crores then may be 80 Crores because then you have there was some common structure which can be used.

**Achint Bhagat:** Okay Sir and just one last question if I may the sanitaryware market size as far as estimate could be how much today 5000 Crores. Sir my question was that what is your estimate of the size of the sanitaryware market as of right now.

**R.B. Kabra:** Size of sanitaryware market in India wise it is around 3500 Crores including organized and unorganized out of this 60% is organized and 40% is unorganized.

**Achint Bhagat:** Okay Sir perfect thank you.

**Moderator:** Thank you Mr. Bhagat. We have a next question a follow on question from the line of Prashant Kutty from Emkay Global. Please go ahead.

**Prashant Kutty:** Thank you Sir just one question you told that you are also looking for other products apart from the normal water heaters, which we are currently. So what will be the additional capex? Can you just give us a ballpark figure of the additional capex for the same?

**R.B. Kabra:** There is no capex. This is only traded products. We will be outsourcing and selling.

**Prashant Kutty:** So apart from the two new ventures which we have announced are we planning to enter any new ventures as of now or just to we are planning.

**R.B. Kabra:** Not for manufacturing what I mentioned was that the CPD division like Geysers we have imported and selling we are also looking for other products which can sell through the similar channels.

**Prashant Kutty:** Okay and one more question Sir like the 200 plus Crores debt which will be raised I guess the 130, 140 will be through debt and remaining 110, 120 will be through internal accruals. So what will be the proportion of spending like what will be in this year and what will be next year.

**R.B. Kabra:** This year will be very little. This year the major expense is happening on the Brownfield expansion which is on the sanitaryware plant would be launched, which is now own for last six, seven months. So that is the expense but for these products where the new projects this year capex will be very little. Largely all this capex will be in the next financial year.

**Prashant Kutty:** So on 70%, 80% will be back loaded the very minimal will be this year. We can assume that.

**R.B. Kabra:** Major chunk of expansion should be in 2016-2017.

**Prashant Kutty:** Thank you Sir and all the best Sir.

**Moderator:** Thank you. We have a next question from the line of Samir Tulshan from JM Financial. Please go ahead.

**Samir Tulshan:** Thanks for the opportunity. Good evening.

**R.B. Kabra:** Good evening Mr. Samir.

**Samir Tulshan:** Just a couple of book keeping questions. How we should expect revenue from the heater business to pan out like in coming quarters and in the following years, I think in previous concall you are estimating around 80 to 100 Crores revenue from this is correct.



**R.B. Kabra:** Going forward in 2.5 years that is what we say three years. First year may be 100 Crores is not possible for any product. Total market for the Geysers as they say in the country is around Rs.1500 Crores. Okay so getting 100 Crores in six months of operation is not possible but what we mentioned was that yes this business should give us 80 to 100 Crores of revenue next three years.

**Samir Tulshan:** Got it and how was the revenue from Queo planning out.

**R.B. Kabra:** Queo is reasonably growing as we mentioned that the basis last year the base was very small but it has been the growth is better than the Hindware growth but of course I should not be satisfied with that because the base is very small but it is picking up. People have started liking the product where showrooms are being built more and more specialize to Queo and the response is excellent and we expect this brand to be 50 Crores brand in next two years.

**Samir Tulshan:** Okay Sir and what is the capacity utilization currently at the glass front.

**R.B. Kabra:** Glass front you must be aware that we have four furnaces.

**Samir Tulshan:** Correct that like any difference.

**R.B. Kabra:** Our the four furnaces as a capacity of 1600 tonnes out of which one furnace of 300 tonnes is shut for last two years. So the operating capacity is around 1300 tonnes. Out of that 1300 tonnes of capacity utilization is around 80%.

**Samir Tulshan:** 80% of the 1300 okay and what have been the advertisement expenses related to the caps Shah Rukh Khan and Jacqueline Fernandez during this quarter?

**R.B. Kabra:** Specific I do not think we can give.

**Samir Tulshan:** Approximately?

**R.B. Kabra:** I do not think the specific number we should be discussing.

**Samir Tulshan:** Okay so should we assume like the margin would have been like at normal levels if those expenses are not there. That would be a correct thing to assume.

**R.B. Kabra:** Except I repeat except for the infrastructure, cost of manpower for the shipping.

**Samir Tulshan:** Okay thanks a lot.

**Moderator:** Thank you. We have a next question from the line of Deepanshu Madan from Locus Investment. Please go ahead.

**Deepanshu Madan:** Sir my questions have been answered thank you.

**Moderator:** Thank you Mr. Madan. We have a next question from the line of Anshuman Atri from Espirito Santo. Please go ahead.

**Anshuman Atri:** Thanks. My question was regarding consumer products which you planned to launch. So I just want to get some color on the strategy being followed as to are you looking the market size the unorganized versus organized margins and what kind of collaborations you are looking at like after Geysers what else you want to complete the product profile.

**R.B. Kabra:** So yes three things. Market size is very important number one. Number two the partner with which we are tying up should have a reputation and he should be able to supply good quality products consistently and he should have a strong R&D. So that we can give us the product which is suitable for Indian conditions like whatever is suitable for Europe or US may not be suitable for the Indian conditions because you will appreciate that the Indian buyer is a price sensitive buyer. They look value for money in whatever purchasing we do. So the person with whom we tie up should have a capability to develop a design product to suit to Indian conditions without compromising with the ultimate quality. So these are the three things we see.

**Anshuman Atri:** Okay Sir and any plans to have a separate reporting once it gets scaled because you have.

**R.B. Kabra:** That is the legal requirements certified in the company's act whenever we reach to that we will have to do it.

**Anshuman Atri:** So as of now it is going to be the part of the building product.

**Sandeep Sikka:** Yes but you have to understand the overall strategy of the organization when because the focus is on the overall building construction material and especially

lot of money goes into like anybody buying a house his spend into the kitchen area and his spend into the bathroom area is substantial. So our focus is on growth of both these areas because we are very strong on the bathroom side right now which is very, very \_\_\_ faucets but kitchen is something which can grow substantially over a period of time and this is a newer market and we will have number of products which can be super imposed into this longer.

**Anshuman Atri:** Okay Sir one last question is last time you had mentioned that you want to strengthen your behind the wall versus what you have in front. So apart from CPVC can we see anymore investments on behind the wall segment.

**R.B. Kabra:** Nothing as such right now on the board.

**Anshuman Atri:** Okay thanks Sir.

**Moderator:** Thank you Sir. We have a next question a follow on question from the line of Girish Choudhary from Spark Capital Advisors. Please go ahead.

**Girish Choudhary:** Hi Sir sorry I had a call drop issue. Sir this time I have question on your packaging product division. So basically what is the current capacity utilization in the glass business we running with.

**R.B. Kabra:** So let me repeat I think again just before this I answered this question you know you have been tracking companies. So we have four furnaces. Total capacity being 1600 tonnes out of which one furnace is shut for two years now of 300 tonnes. So running capacity is 1300 tonnes. Out of 1300 tonnes the current capacity utilization is 80% approximately.

**Girish Choudhary:** 80% okay Sir my second question is basically on the packaging product revenue. Are we seeing obviously last year we saw around significant price hikes in the second half. So are the prices holding or did we any price cuts.

**R.B. Kabra:** Significant is not the right word. We go to 5%, 6% only. So that was not the significant it was lower than the GDP growth and that to we got after 2.5 years but yes the prices are still in place.

**Girish Choudhary:** Any further chances of increase.

**R.B. Kabra:** That is why you see that the margins are improving regularly. So price are holding till now that is what I must say but price increase current circumstances we do not see coming and at least in this next six months.

**Girish Choudhary:** Sir my last question is basically now that we have shifted our capex plans to Telangana so now we have the excess land at Gujarat. So do we have any plants there in terms of doing anything there?

**R.B. Kabra:** This decision had just been taken only few weeks ago. So now we have to see actually we have been planning a sanitaryware plant, which we have been dealing because of this sluggish market conditions. So we will have to see whether we can put up the sanitaryware plant in Gujarat or we should go into Rajasthan because Rajasthan government had just announced a ceramic complex near Neemrana. So where we are also have applied for land. We will see the cost benefits analysis and if suppose we decide that Neemrana is more suitable than Gujarat. Gujarat we understand that the electricity rates are going very high and the sanitaryware manufacturing is highly power and fuel intensive. So earlier advantage in Gujarat was that the natural gas was available but unfortunately now things have changed so the LPG has become cheaper than natural gas and this new industrial area near Neemrana is also having gas pipeline from Gir. So we have to wait for may be few months until whether we get the land or not and then we see do this cost benefit analysis and then decide and we suppose we decide that yes we are not going Gujarat then ultimately see what can be done with the land.

**Girish Choudhary:** Lastly on the pipes and the caps business how will the capex also will be like in 2016 and 2017.

**R.B. Kabra:** March 2016 will be very little may be less than 20% of the total plant capex it will be largely in the 2016-2017.

**Girish Choudhary:** In 2017

**R.B. Kabra:** March ending 2017 so financial year 2016-2017.

**Girish Choudhary:** Okay sure Sir thanks a lot.

**Moderator:** Thank you Mr. Choudhary. We have a next question from the line of Umesh Raut from Enquires Capital Private Limited. Please go ahead.

**Umesh Raut:** Thank you very much all of my questions have been answered.

**Moderator:** Thank you Mr. Raut. We have a next question follow on question from the line of Achint Bhagat from Ambit Capital. Please go ahead.

**Achint Bhagat:** Sir thank you for giving me the opportunity again. Just one question, Sir you mentioned that you want to increase the sanitaryware capacity. So just wanted to understand Sir are there capacities in more be which you could possible tie up with to reduce the capital intensity because I mean as and when the game becoming more and more branded would not those guys have an incentive to partner with you. Is it possible just wanted to understand?

**R.B. Kabra:** This is now a proven for tiles but for sanitaryware it is not yet proven because quality is a big issue. Sanitaryware unfortunately there is a functional thing. Tile so once you put in you forget either it is on the floor in the wall once you put it you put it and forget it but sanitaryware you have to continuously use. It has to flush the water consumption and the quality of the products how efficiently it is flushing so that is still a question mark in that particular area of operation but the low end products of course can be outsourced and we do very little outsourcing for our Benelave brand from that area but if you ask me I do not see this possibility in the near future till these people start manufacturing the product with the improved quality levels. Just for your information we are the best quality manufacturers in the country today and our quality standard meets all European and American standards.

**Achint Bhagat:** Yes Sir I could see estate exhibition as well congrats for that.

**Moderator:** Thank you Mr. Bhagat. As there are no further questions I would now like to hand over the floor back to Mr. Vikash Mantri of ICICI Securities Limited. Over to you Sir!

**Vikash Mantri:** Thank you everybody for participating in the call. Thanks from ICICI thanks to the management for being in the call.



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**R.B. Kabra:** Thank you.

**Moderator:** Thank you Sir. Ladies and gentlemen on behalf of ICICI Securities Limited that concludes this conference. Thanks for joining us. You may now disconnect your lines.