



“HSIL Limited Q4 Financial Year 2015 Results
Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Q4 FY 2015 Results Call of HSIL Limited, hosted by Emkay Global Financial Services. We have with us today Mr. R. B. Kabra, President, Building Products Division, Mr. Sandeep Sikka, CFO, and Mr. Anil Chandani, Senior Vice President, Corporate Finance of HSIL 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 this conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Kutty, Research Analyst of Emkay Global. Thank you and over to you Mr. Kutty!

Prashant Kutty: Thank you. Good evening everybody. Thank you for joining on the call today. We would like to welcome the management of HSIL Limited and thank them for giving us the opportunity to host this call. I would now like to hand over the call to Mr. Kabra for his opening remarks. Over to you Sir!

R. B. Kabra: Thank you, Prashant. Welcome you again and thank you very much for your time. A few things to be clarified here is that the Q4 numbers this year are not really comparable with the Q4 numbers of last year and as most of you will know this is because of the merger of GPPL which we had last year and last year the whole year’s revenue was clubbed in the March quarter last year, because the court order was received sometime in mid of March and since the consolidation had begun at the end of the year so whole year’s revenue came in the whole year as well as quarter four. So actually quarter four to quarter four is really not comparable so the kind of decline you see it is not a really comparable decline so that is one.

Number two the QIP money which we raised 250 Crores have been used as per the issue planned for repaying the debts and that is reflective in the substantial reduction in the borrowings as at March 31, 2015. The borrowings are down to 700 Crores approximately from 1000 Crores plus part of loans were also repaid from the internal accrual. So total reduction in the loan is around for the area if you compare March 2014 to March 2015 itself 350 Crores.

The year as well as the quarter for the PAT has been extremely sound if you see the whole year the PAT is up by 85% to 105 Crores approximately. The PBT is up by 56% to 152 Crores and EBITDA is now very close to 350 Crores so in terms of bottomline there has been a very, very good growth and as most of you will know that the 2013-2014 year and the first two quarters were bad for the packaging product business and because of the conversion of the fuel and the price increases started showing impact from the Q3 so Q3 we

had a positive EBIT and which trend continued for the Q4 as well, and since the fuel conversion as well as the price increase is now with us on the (inaudible-3.52) so we are confident that the kind of margins improvement the glass has seen is sustainable.

The growth in both the businesses has been muted and both businesses have grown more or less by 6% - 6.5%, largely because of the building product as you all know this 6% is actually equivalent to around 10% because of the one product category which we went out and it has a negative impact of around 3.5% to 4% and this also will have a hangover effect in quarter one because the product category, which we stopped selling was from July 2014. So one more quarter we will have impact of this and thereafter the numbers will become comparable for the product categories which we are in, but of course still the growth is below expectation and it is largely because of the slowness in the institutional segment as you all know we are in two segments one is the retail and one is institutional.

Retail is doing reasonably well but the institutional segment the off take is not as was expected. Of course we have orders in hand but we do not have clearance to dispatch and no payments because normally the project executions are done against the cheques maybe post dated cheques based on the payment terms what we agreed but still there is no off take and the real estate market as you all know has not really picked up.

Everybody was waiting for two things; number one price correction and number two the interest rates coming down so the price correction has taken place in few of the places. The builders have really come forward and will reduced rates or maybe have started offering discounts but the interest rates are still not been down so the people are still fence-sitting and waiting so that EMIs become more affordable.

I think maybe another quarter or so before the interest rates start coming down and then the market revives so I think maybe one or two more quarters of slow growth and thereafter things should come back. As you all must have seen the results of most of the company's growth has been muted for most of the companies and so are we affected but good thing has been the coming back of the glass on the expected bottomlines which is sustainable over a period, which was a big drag last year because that is how the profits came down to 56 Crores.

I think going forward with smaller growth for quarter one and quarter two and then we hope because the macroeconomic parameters are in place, the building project division is in the right place because ultimately work has to start in terms of real estate as well as the Swachh Bharat and penetration level has to improve so macro things are on place but actual action on the ground maybe another two weeks.

One thing will be different from the earlier calls is that most of you must be aware that insider trading norms which have been announced by SEBI effective from May 15 and as per that we are not supposed to be sharing information which are not in public domain already and we have been advised by the legal cell that this analyst call cannot be treated as information in the public domain so maybe we will have to restrict ourselves to answering your question to some extent and I may request that if somebody's question is not answered, they may send us a mail. We will combine the questions, we will combine the answers, compile the answers, put on the website and then probably we can answer to you.

So that is the big change from the last calls because we used to share and answer questions from most of you so this time maybe a little restricted in terms of giving you specific information. I think hope you will all understand. Thank you very much and it is open now for question-and-answers.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Vaibhav Vatkar from IWealth Management. Please go ahead.

Vaibhav Vatkar: Good afternoon Sir. Sir you talked about slowness in institutional segment can you share any segmental view on like urban, semi-urban and real estate players then the government orders and you throw some light on this where the orders are coming and where your dispatches are also going.

R. B. Kabra: Basically as I mentioned that we normally divide business in two segments, which is the retail and institutional. Retail sale is what we sell through our dealer distributor network and the institutional segment we call where the supply could be directly or through our dealer network, but we cover institutional segment with the builders, developers, hotels, hospitals, commercial spaces where we have a special negotiation with them in terms of price in terms of delivery, in terms of models in terms of supply and then we execute so when we say that the institutional segment is a little slow it is this part of the business. When we say the retail that is what we sell through our dealer distributor network.

Vaibhav Vatkar: In terms of urban, semi-urban or rural kind do you have any breakup of share or anything like that?

R. B. Kabra: What I can tell you is that 10 top cities account for around 38% of the sales.

Vaibhav Vatkar: Thank you.

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

Nehal Shah: Good evening Sir. Sir just to get some sense on the growth numbers in building product division, I would like to know the growth profile in each and every segment like how has faucet done in particular within the building product segment?

R. B. Kabra: I think this information we cannot give it here because we have not given the product category wise sales to anywhere but I think we will take your question and we can answer you separately please send us the mail.

Nehal Shah: What about the volume growth?

R. B. Kabra: Same answer but if you tell us we will put on our website and then we can answer to you.

Nehal Shah: Sir what has been the exact debt on books as of the year-end?

Anil Chandani: 680 Crores.

Nehal Shah: This includes the short-term maturities as well right?

R. B. Kabra: Everything put together any express bearing debt.

Nehal Shah: What is the average cost of borrowing?

R. B. Kabra: Average cost of borrowing of 8.5%.

Nehal Shah: Another thing is our subsidiary losses continue the way it has been over the last couple of years so it is not going down?

R. B. Kabra: It has gone down in comparison to last year if you see some of the consolidated results of last year and this year, you will see that there is a reduction of around 4 Crores.

Nehal Shah: But if you reduce see if you look at the overall profitably on consolidated and standalone basis the difference is 19 Crores for this year versus the difference of around 23 Crores so you are right, but what is the way forward any sense of those?

R. B. Kabra: What is really happening is that the capex there is no more capex. We are growing through the franchise model now. So of course the sale growth will certainly give the higher contribution like this year also the subsidiary sale has grown by 10% and this is what has resulted in the reduction of the losses at the net level going forward because the franchise thing started only last six months, we will be substantially growing this franchise model now because the brand is established because this 100 Crores plus brand now and the

EO brand of the subsidiary is now very well known to the consumers, and customers, and we have also launched our e-commerce website for our product categories, which started only a few weeks ago. So we expect that the business should grow and the higher the revenue growth there will be contribution and the fixed cost remaining the same they should start contributing towards reduction of losses and we expect in two years time we should be EBITDA positive company.

Nehal Shah: EBITDA positive and PAT positive?

R. B. Kabra: Three years, but if the e-commerce thing picks up like this is the trend today then maybe the time is shortened to two years but this since the site had just been launched the response seems to be good but till it converts into the sale numbers is very difficult to say that how it is going result into the sales growth, but franchise model is quite successful and we are hopeful that that should give us in terms of revenue boost should be higher.

Nehal Shah: Sir what about the Queo brand has that also turnaround in to profits?

R. B. Kabra: Brand wise profitability we never share.

Nehal Shah: No, I mean to say Bahadurgarh subsidiary?

R. B. Kabra: What I can say is that the Queo brand in the country is doing well. The growth is good but it still is a basic brand. It is only a three-year-old brand and you know that creating brand is not a one-year, two year period play. You have to give five years to the brand and as we already mentioned many calls that we expect this brand to be 70 to 100 Crores in five years time.

Nehal Shah: Thanks a lot.

Moderator: Thank you. Next question is from the line of Bhavin Patadia from Angel Broking. Please go ahead.

Bhavin Patadia: Good evening Sir. Can you share something on the utilization levels of the segments?

R. B. Kabra: Our plant utilization.

Bhavin Patadia: Yes.

R. B. Kabra: The sanitaryware plant utilization is around 88% - 89% but as already mentioned both our plants we have two plants one in Bahadurgarh, Haryana which is near Delhi at a capacity of

1.8 million pieces and there is another plant, a place called Bibinagar in Telangana, has a capacity of 2 million pieces combined capacity 3.8 million pieces and capacity utilization last year has been 88% - 89% but both plants are under Brownfield expansion. We are adding 1 lakh piece module at Bahadurgarh and 3-lakh piece modules at Bibinagar so the Brownfield expansion will be around 11%, which should be completed in this year or first quarter of the next year, because this year is 10% spare capacity is good enough to take care of this year. So this will take care of another next two and a half year and then as we already announced that we have a land in Gujarat where we had already planned our Greenfield sanitaryware plant to 1.2 million piece capacity but and work was to start in this financial year but we are deferred it because we are not seeing the kind of pickup we were expecting into the market so once the pickup is there we can start work because land is already with us, and it takes around two years from ground breaking into bring enough the production so there so enough capacity in terms of faucet the capacity utilization because we put up a large capacity last year of 2.5 million pieces, the capacity utilization is around 40% to 45% this year we expect it to be around 60% - 65% and for the glass we have four furnaces and total capacity of 1600 tonnes, one furnace of 300 tonnes is shutdown for last two years, because as you know that there was a overcapacity in the glass and we were not able to sell and everybody was struggling so we shutdown one furnace so capacity utilization you talk of based on three furnaces it is around again 90% - 91% but if you want to know based on four furnaces fourth also if you consider that yes we can start it any day so that capacity is there in that case it is around 73% - 74%.

Bhavin Patadia: So this in building product segment if you consider our sanitaryware and faucets both and then the utilization level will be a bit around 70 – 75 or below that?

R. B. Kabra: You cannot mix because the product is around interchangeable what we make in sanitaryware plant really cannot be made in faucet and a visa versa you will have to create individually only.

Bhavin Patadia: Apart from that we had some ECB borrowings so what is the status of that right now?

R. B. Kabra: ECB borrowings are the long-term borrowings, which we are paying as per the schedule.

Bhavin Patadia: What is the amount left right now with us?

R. B. Kabra: Around 440 Crores.

Bhavin Patadia: One more question from my end, regarding this particular packaging product segment that you told that utilization levels are close to 90% so going ahead also we are expecting the same with utilization levels or it may come down?

- R. B. Kabra:** You did not listen to me the 90% based on three-furnace operation.
- Bhavin Patadia:** Three furnace right, in 74% all.
- R. B. Kabra:** 74% based on the four furnaces. So this year we do not expect the shutdown furnace to be re-lighted because these 7% - 11% - 10% whatever is available that is the volume growth we do not expect more than to be 8% - 10% this year. Since the running is good enough for this year if it turns better next year we can light up the four furnaces there is no issue because it takes only 45 days to light up the furnace when it is completely cool. We have enough capacity in the glass to take care of at least for next three four years.
- Bhavin Patadia:** So we will not be having any significant capex as you said earlier?
- R. B. Kabra:** Last year.
- Bhavin Patadia:** That is it from mine. I will join later in the queue, thank you.
- Moderator:** Thank you. Next question is from the line of Jaspreet Singh Arora from Systematix Shares. Please go ahead.
- Jaspreet Singh Arora:** Sir just on the expansion continuing, Bahadurgarh 1 lakh pieces and Bibinagar 3 lakh pieces what is the exact timelines now?
- R. B. Kabra:** Exact timelines actually last year when we had a board approval in the last year beginning itself but we delayed looking to the market trends so now the work is on and it should be operative before end of March 2016.
- Jaspreet Singh Arora:** Because earlier the figures I had was June 2015 and March 2016, so which essentially mean there was a nine month gap now I have been think with all of them going live with the same time?
- R. B. Kabra:** Yes, everything will be live on more or less the same time only maybe few weeks apart.
- Jaspreet Singh Arora:** So March 2016 is what you are planning.
- R. B. Kabra:** Yes.
- Jaspreet Singh Arora:** The Kaharani Faucet phase II any update there Sir.

R. B. Kabra: Phase II is a little away because as I mentioned the capacity utilization is only around 45% and as you know the slowness and slowness we talk of sanitaryware we have slowness in the faucets as well so but anyway faucets we expect and we are focusing hard to grow faster because that is a much larger market in comparison to sanitaryware and we will be only requiring eight months to complete the phase II because the land is already with us, structure is already with us and machines are available in four five months time so whatever time building contraction takes the machines will also be available during that part of time and the critical process which is the plating which takes a longer time to get the plating line installed, commissioned, and stabilized plating line is already for 5 million pieces so it will be only the casting machining, grinding, polishing which we will have to create but we will start work only when we reach capacity utilization of say around 80%.

Jaspreet Singh Arora: So basically work will essentially start on this may be next financial year and then towards the end of it?

R. B. Kabra: 2015-2016 clearly no. 2016-2017 looking as we everybody expect that from H2 onwards of this financial year there should be pickup. There is an optimism in the market everything but Jaspreet, you know very well till the ground work does not really start the consumption really does not start and everybody has now started talking good monsoon, bad monsoon, rural consumption that consumption, this consumption so I really cannot predict that what is really going to happen but what I can say that yes we are ready whenever there is a demand pickup it will take only six to eight months and since we have enough capacity we will really come to know that there is a pick up six to eight months time we can put up the phase II.

Jaspreet Singh Arora: So this 45% utilization just to refer it is for FY 2016 and it is on a 1.5 million pieces right?

R. B. Kabra: No, FY 2015 45% is FY 2015 this we are expecting 60% -65%.

Jaspreet Singh Arora: This is on 1.5 million pieces right?

R. B. Kabra: 2.5 million pieces.

Jaspreet Singh Arora: No, this phase I was 1.5 so.

R. B. Kabra: Now this phase I and phase II is all done, machines are run in place when I says phase II from 2.5 to 5.

Jaspreet Singh Arora: So as of now and we had also there was a 0.5 million piece at Bigadi also which we shifted to Kaharani plant?



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R. B. Kabra: Not really shifted we temporarily and production only was shifted. The plant is there, machines are there so that capacity can also start the day we want.

Jaspreet Singh Arora: So essentially okay just to reiterate so we have 0.5 million pieces there and 2.5 million pieces capacity up in running.

R. B. Kabra: So 2.5 and 0.5 there is 3-million piece capacity. If I consider 3-million piece capacity then capacity utilization is around 35% for the FY 2015.

Jaspreet Singh Arora: So by Phase II you might essentially going from 2.5 to 5?

R. B. Kabra: Yes.

Jaspreet Singh Arora: Sir just the loan figure that you mentioned sorry, I have missed that how much is the loan you said?

R. B. Kabra: 680 Crores now as of March 31, 2015.

Jaspreet Singh Arora: In terms of the building product space can you share if not the growth figures, and just have broad contribution from each of the segments like faucets and sanitaryware and allied and what is wellness and whatever broad categories we have?

R. B. Kabra: We will send it after we load it in the side.

Jaspreet Singh Arora: Okay that also comes along with that.

R. B. Kabra: Yes.

Jaspreet Singh Arora: What is your sense now with April and May already through this year let us say adjusted for tiles against 10% last year in building products what kind of number you are looking at for this current financial year?

R. B. Kabra: Jaspreet, we cannot predict the future, you are the best who know. You need to tell us about it.

Jaspreet Singh Arora: I am just looking at internal targets so let me just.

R. B. Kabra: When we talk of guidance for the whole year we are given guidance for the whole year for the building product growth of anywhere between 15% and 18% as we have been growing and that is also because we were launching geysers by end of this quarter as you already

know we tied up with the largest manufacturer of heating geysers in Europe so that will be launched by end of this quarter by June and for the glass we have given a growth guidance of 11% - 12%.

Jaspreet Singh Arora: Last Sir just last question there the margin profile was significantly different in 1H and 2H so looking at the full financial year what should be the benchmark one should take the second financial year was in double digits?

R. B. Kabra: H2.

Jaspreet Singh Arora: Do you think H2 the double-digit load that is the benchmark for sometime going forward?

R. B. Kabra: Yes, in terms of the EBITDA margins and EBIT margins.

Jaspreet Singh Arora: Because that was fairly high?

R. B. Kabra: That has the impact of all hard work in terms of conversion of fuel. The price increase which was held up by the customers for two years and earlier so now that is the rear reflection is quarter three and quarter four so if you take average of these two quarters or as you call it H2 I think that is sustainable.

Jaspreet Singh Arora: This sorry if I missed out that on the liquor side and beverage side have we got the price hike there so as to complete the basket?

R. B. Kabra: We have got price hike from everyone now.

Jaspreet Singh Arora: So that cycle is complete. Thank you so much Sir and all the best.

Moderator: Thank you. Next question is from the line of Sameer Tulsiyan from JM Financial. Please go ahead.

Sameer Tulsiyan: Thanks for the opportunity. If we see last two years on a total basis, the revenue have been sluggish for FY 2014 it has been due to glass business in FY 2015 due to Building Product division, so how do we see the current demand scenario after witnessing slowdown in 4Q how should we see the things in both the divisions in terms of demand?

R. B. Kabra: Yes, we are aware of the fact and everybody is aware that glass was extremely bad for 18 months and not only for us it was for the total industry as such. We are the first to turnaround with the hard work so that is known to us because everybody listed companies file their results, so our glass division has done much better than anybody else that is

proudly I can say that and that is what the operating people and the management can do. If the total macroenvironment is bad for the industry yes, I do not think anybody can do against it but what best can do is how fast you can recover from that fall, so that is what we have done and glass is back at glass growth normally is around 11% - 12% except barring few years which was the big we have seen a growth of 20%, 25%, 30% but if you see the CAGR it is around 11%, 12%, 13% and that is what we are projecting this year. For the Building Products we have been growing 16%, 18% and we are targeting around 15%, 16% this year, that is the guidance we have.

Sameer Tulsian: In terms of building product like your strategy of lowering the working capital by not pushing the sales seems not to have worked out this year because our working capital days remain almost the same?

R. B. Kabra: No, actually you have to consider one thing that because the new faucet plant has come into production last year so one when you commission a new plant there is always additional inventory coming up for the raw material, for the WIP, for the finished good because earlier we were trading so around Rs.30 to 35 Crores additional inventory for the new plant, which is impacting. Of course there has been the reduction in debtors and reduction in the sanitaryware inventory in terms of the regular business, but you will appreciate that whenever you put up a plant there will always be this inventory built up for the raw material for the component for WIP which is true for any industry when you put up a new plant.

Sameer Tulsian: So it means there has been a benefit in terms of working capital and how long do we intend to continue to do less for sale less pushing lesser sales?

R. B. Kabra: Yes, we had learned hard way that once the discipline is in place; it is very difficult to put discipline back. So once you have put up back we will, I do not think we will allow it to spoil again, but ultimately you will realize that the dealers or distributors or the retailers whatever you call them ultimately they need a material to sell. They cannot hold back for not going for a year, somebody can hold for a quarter, somebody can hold for two quarters depending on what kind of inventory he has. Ultimately he is in business and if he does not sell he will not make money. So once their inventory levels are reduced ultimately they will have to buy and pay as per the terms what they have agreed with the company.

Sameer Tulsian: So how long do like for how many quarters should we see this going ahead like in terms of this drive of inventory reduction?

R. B. Kabra: Two quarters.

Sameer Tulsian: Is there any cost saving initiative from side of the company like besides like what we have seen in the power and fuel side this year, is there any other cost saving initiative or further cost savings from fuel which one should expect?

R. B. Kabra: Power and fuel, see the price is not in our control, right. Fuel is in terms of we have three major fuels, or four major fuels. One is natural gas, which we buy from Gas Authority of India and their formula is so complicated that even Brahmaji cannot understand that leave aside ours, they impose their own price but it is still cheaper than LPG. The next fuel is used to have a lot of consumption of furnace oil and LSHS, which has now been replaced to the extent of 90% by Pet Coke, which is the cheapest fuel today. So that is already reflective into the results of glass business. Third is LPG. Fortunately LPG prices are low for last four five months and we hope that this will continue to remain low for the next few quarters. If the crude prices suddenly go up then nobody can help but at the current level the LPG prices are around Rs.43000 to Rs.42000 a tonne, which was as high as Rs.69000 a tonne at some point of time, so if these prices remain and the prices started coming down from Q2 so last year had only impact of six months. If the prices remain like this we should have an impact for the whole year and the fourth fuel is diesel now which is again controlled by the government to say that if the prices are liberalized or prices are market driven but this is really not market driven they are taking back whatever the benefit should have come to the customer by raising excise duties and they reported that there has been 50000 Crores extra revenue because of the hike in excise duty in last year in these two products, petrol and diesel. So that depends how government wants. Electricity yes, all electricity boards have raised prices last year maybe 2% - 5% they will raise again because everybody is suffering in loss except the exchange power which our people have worked really efficiently and has bought exchange power which is whenever it is available cheaper than the grid power to a great extent and we will continue to do so.

Sameer Tulsian: What would be in terms of some data questions like what would be our capex and CWIP for FY 2015 last year?

R. B. Kabra: What was the capex last year, it was around 86 Crores?

Sameer Tulsian: CWIP?

R. B. Kabra: Including CWIP.

Sameer Tulsian: What would be your balance sheet CWIP figure would be?

R. B. Kabra: I do not remember that now but I will keep you informed. You send me a mail and I will send the reply. There is a reported number so there is no issue as such.

Sameer Tulsian: The expansion which we have done like are we seeing any do we have any tax benefits coming from the expansion?

R. B. Kabra: Actually expansion is still not commissioned as such, building product has WIP faucet plant has been capitalized whatever has happened in the last year, it is available from state government. Sales tax deferment takes place that you will get for four to six months, rest what will happen in GST, nobody knows.

Sameer Tulsian: Thanks.

Moderator: Thank you. The next question is from the line of Kamlesh Kotak from Asian Markets. Please go ahead.

Kamlesh Kotak: Good afternoon Sir. Sir just wanted to know if you can share some colour on how the competitive intensity some qualitative assessment both in faucet and sanitaryware, how the things are at ground level in terms of the overall competition?

R. B. Kabra: Competition has been there all around. We were never a monopolistic seller at any point of time. Of course we have been largest in sanitaryware for many, many years, but there have been other players. Parry was there since beginning when we are there. Of course earlier they were in urbanware and when we started Vitrus China they also converted Vitrus China. CERA has been around from 1969 – 1970, Kohler has been in the country for 11 years by import and now last four, five years by having plant in the country, Duravit has a plant for last five years, TOTO has just put up a plant and rest of the brands are now available by import and sell and now everybody wants to have the bigger share of the wallet of the customer so people who are in faucet they are also trying their luck in sanitaryware. Sanitaryware they are trying luck in faucets so the markets thing is changing. Earlier if you had talked to me for five, seven years ago most of the dealers were single brand dealers but now because of the demand by the customer to have a look at the various options, 80% of the outlets have gone multibrand so most of the people are trying their luck, some will succeed some will not succeed. To succeed to some extent till they do not put up a manufacturing capacity like faucets we also started by trading, reached to a level of certain levels after that we realized that even outsourcing is not possible because when you cannot get quality and you have brand gets a rub-off so you will have to see going forward that in trading models how much can people work, how much they cannot, that future had to see. See when they tried earlier failed, again tried failed and they are again trying so it is a free economy that is the advantage or disadvantage. People have freedom to try, they have freedom to fail, and they have freedom to succeed so I think we have been in competitive place for many, many years. People have been around and we have been selling, we have been market leader so I think will keep fighting, there is no issue.

Kamlesh Kotak: Sir what I was coming from is that is there any competitive cum pressure is what is leading to some price cuts in the current demand environment which is already slow, that is one and secondly how the margins are panning out in both these faucets and the sanitaryware for us in particular?

R. B. Kabra: If you really see our margins if you have been tracking, margins in the building products has not gone down year-on-year. They have been going up so that answers your question that is there in a pressure on the price cut no, because we are in an inflationary economy even our sanitaryware manufacturing has a high cost of power and fuel which have been going up if you see year before last the power and fuel cost in Andhra Pradesh went up by 35%. We have been able to pass on all these cost increases that mean that when the cost is increased for me it is increased for every manufacturer. That is not this is only me, and everybody comes under pressure and the price is passed on because this is a consumer product where there is no single large buyer who can control 2%, 3% or 4% of the revenue and he can dictate terms because we are very large in terms of retail sales. We have more than 2900 dealers so nobody can arm twist and we are launching more and more known designed products so there is no benchmark in terms of pricing that ten day ago I had purchased for Rs.100, how come it has become Rs.110 now. This is not the case, customer do not buy sanitaryware everyday, maybe at best somebody buy sanitaryware in their lifetime three times, that is all most of them will buy only one time.

Kamlesh Kotak: So Sir for us the realization has been maintained at the year-on-year and QoQ basis for this quarter?

R. B. Kabra: Yes, except sometime when we do too much big expense on the marketing this quarter if you compare last year's quarter four but if you see the whole year it is okay if the 1% down that could be because of the large marketing expense we will do which will see a big blast coming in few weeks.

Kamlesh Kotak: What would be the quantum of the overall marketing for this year as well how much we will spend next year Sir?

R. B. Kabra: Marketing covers lot of things incentives, dealer discounts, dealer showroom improvement but if you talk pure, pure advertising this is above the line, below the line it is around 7.75%.

Kamlesh Kotak: Of the revenue?

R. B. Kabra: Yes.



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- Kamlesh Kotak:** That is above the line or below the line you say.
- R. B. Kabra:** Both put together, above the line is around 5% and balance 3% is around below the line.
- Kamlesh Kotak:** What we will target for the next year to maintain that level or we are increasing?
- R. B. Kabra:** Increasingly up by 1% this year that I can say.
- Kamlesh Kotak:** From 7.5% to 8.5%?
- R. B. Kabra:** Yes.
- Kamlesh Kotak:** Thank you very much.
- Moderator:** Thank you. Next question is from the line of Ankit Jain from Equirus Securities. Please go ahead.
- Ankit Jain:** Thank you Sir. Thanks for the opportunity. Sir couple of questions, what is your thought process on this consumer product division I mean we have started with water heaters so like are we planning to add any products?
- R. B. Kabra:** Yes, we are looking at few product categories, certainly we will go into the categories where the growth rates are higher, and so we are working on few product categories, which is not yet decided. Once we take a decision we will certainly come out and like we informed for the geysers we will inform for the other product categories as well.
- Ankit Jain:** So Sir that will again be some sort of a marketing arrangement or like some investment is going to be there?
- R. B. Kabra:** Basically to start with everything will be sourced and sold through our channel loads under our brand or the joint branding that is number one and then the internal understanding is that when we reach to a certain level where the manufacturing becomes commercially and economically viable we will do it otherwise we will continue to source and sell.
- Ankit Jain:** But then Sir distribution network for all of these categories would be slightly different than what?
- R. B. Kabra:** We are creating a different vertical separate vertical in the company and they will be looking at the channels we will sell around 20% say for the geysers around 14% channel is common and 60% electrical and electrical channels we had a small presence because you

have got our kitchen chimneys and hoods and hobs so we have part of it but of course yes we will have to create new channels as well.

Ankit Jain: Sir now on the capex plans for fiscal year 2016 what is the total amount?

R. B. Kabra: Very little because last year we had 60 Crores of building product, out of the we have made expenses of Rs.15-20 Crores, those are with WIP, because we started work late as I just mentioned because of the poor off take in the market we did not start the work early enough to complete in last year. So out of that 60 Crores which was allocated rather to be precise 57 Crores which was allocated for the expansion in the Brownfield expansion of both the divisions of sanitaryware we only spent 20 Crores last year, so balance 40 Crores will be done this year, and then the packaging business around 10 around 15 Crores because we are automating certain processes where large number of people are involved, so actually that will result in reduction of the manpower cost.

Ankit Jain: So which means that for fiscal year 2015 86 Crores which you have mentioned out of which 60 odd Crores might be go out?

R. B. Kabra: 20 Crores for the sanitaryware, 15 Crores for packaging and the rest on faucet plant where our work was going on, balance we have made on that.

Ankit Jain: Lastly Sir if you can share Garden Polymer number for fiscal year 2015 would it be possible?

R. B. Kabra: You send me the mail. I will let you know. We cannot initiate now.

Ankit Jain: Thank you and all the best.

Moderator: Thank you. Next question is from the line of Bhavin Patadia from Angel Broking. Please go ahead.

Bhavin Patadia: Sir just few questions one is that you told that your average cost, borrowing cost is somewhere around close to 8.5, so is it inclusive of the ECB loans that you have or it is separate?

R.B. Kabra: Anil will answer this.

Anil Chandani: This is basically working capital loan 8.5 including if you include ECBs it will be around 6.5% total cost.

- Bhavin Patadia:** One more question, the capacity regarding the building products do you have right now the 38000 MT and 30000 MT?
- R. B. Kabra:** 38 lakh pieces.
- Bhavin Patadia:** In faucets where we have 30?
- R. B. Kabra:** 30 lakh pieces, correct.
- Bhavin Patadia:** So going ahead we are going to add the capacity in the sanitaryware?
- R. B. Kabra:** Sanitaryware 4 lakh pieces.
- Bhavin Patadia:** That will be in this financial year FY 2016?
- R. B. Kabra:** Yes.
- Bhavin Patadia:** Apart from that going ahead do we have or will it be at the same level and looking at the market conditions we will be going ahead?
- R. B. Kabra:** Going ahead with the Greenfield plant which actually we had to start the work this year itself but looking to the poor market off take we did not start. As I told you many times we already have a 65-acre land in Gujarat, so whenever we feel the market is good, we will immediately start the work there.
- Bhavin Patadia:** What will be capacity of that, 16 lakhs?
- R. B. Kabra:** 1.2 million pieces.
- Bhavin Patadia:** Thank you Sir.
- Moderator:** Thank you. Next question is from the line of Girish Choudhary from Spark Capital. Please go ahead.
- Girish Choudhary:** Good evening Sir. Sir just on your water heater business if you can give us some details on what kind of revenues we are expecting, revenues on margin profile at least in our business plans?
- R. B. Kabra:** I do not think we can give this information at that point of time please send us a mail and whatever best we can share we will share.

Girish Choudhary: Sure, and also my second question if you could share the debt breakup between the building product division and the glass division the breakup of 680 Crores?

R. B. Kabra: 680 Crores, out of that glass 150 is with BCD and remaining is glass. One rectification I would like to do for all the participants I earlier told total ECBs are 440 Crores, the figure is 500 Crores for ECBs as on March 31, 2015.

Girish Choudhary: Thanks a lot.

Moderator: Thank you. Next question is from the line of Ujjwal Shah from Quest Investment Advisor. Please go ahead.

Ujjwal Shah: Thank you for taking my question Sir. Just wanted to have your view on the GST impasse that we could see probably on our business what would be if you can quantify the extent if possible?

R. B. Kabra: Difficult to answer but easy to answer as well, because nobody knows what will be the GSTs framework today. Largely we have a lot of petroleum products use as I had just mentioned in both the businesses. So if the petroleum products become part of the GST and the tax paid on that becomes VATable yes we will have a positive impact of 1% - 1.5%, but as we understand that to start with government is planning to keep the petroleum products out of GST and it may take two years or three years so based on that depending on when it comes it will have advantage otherwise as you see our raw material cost in terms of bringing sanitaryware is not very high, but I do not think it will have impact but yes ultimately going forward we have to see that whether the supply chain systems will change or not but till the petroleum products are not covered we do not see major impact here and there.

Ujjwal Shah: Sir how about the gap reducing between organized and non-organized player?

R. B. Kabra: Yes, that will change to a certain extent but that of course has been coming down in any case, because the customer preference is now moving for any product not for sanitaryware, you talk of any product categories and people are more and more into the branded category. So if you see the perspective of last eight, nine years the unorganized sector used to be 60% and organized used to be 40%, it has now come down to the unorganized and now down to around 35% - 38% so already there is a 50% reduction from 60% to 40%, 38%, it continues to happen but I think finally they should themselves to around 25% because something will not happen in the country which will keep it shut. The rural population which is 60% they are yet to convert to sanitation, first of all they should be given training first as we call it potty training, or affordability becomes the issue so from there only the cheap products. We

see it as a market potential that once somebody starts using these and some point of time they will upgrade to a better product. So maybe initially they will use small-scale products and when it comes for replacement they will go for a product branded, some from me or from Parry, or XYZ but it will be market expense. So I expect that yes this conversion of 1% - 2% revenue will continue to happen for next five, seven years.

Ujjwal Shah: Sir secondly you mentioned in the call that the top ten cities account for nearly 38% of sales so we are very much present in tier II, tier III cities as well, how has the demand been seen in those cities?

R. B. Kabra: It varies from region to region, it will be very general answer; may, may not be possible.

Ujjwal Shah: But if you can give some idea about your major reach in terms of last year?

R. B. Kabra: I mentioned that we are present in all cities where the population is more than 1 lakh. In next two years we will be extending our reach and we will be present in all cities where the population will be 75000 and above, so those are around 600 cities which we would cover in two, two and a half years, by dealer, or by sub dealer or by some kind of retail outlet. So we are really focussing on the tier II, tier III cities reasonably well and we know that growth ultimately money is there people today are even moneyed people are not able to use sanitaryware for lack of water because you need to have running water to use sanitaryware, so once the water supply improves people have money they can use sanitaryware so we are making our presence in any case there.

Ujjwal Shah: Sir lastly just a bookkeeping question, how big is the faucet market Sir, Indian faucet market?

R. B. Kabra: Indian faucet market is around 5500 Crores, out of which around 45% is organized and 55% is unorganized.

Ujjwal Shah: It is growing at what pace Sir?

R. B. Kabra: Same 12% - 13% which is the growth of building product because there is a new construction and there is a replacement.

Ujjwal Shah: That is all from me Sir. Thank you.

Moderator: Thank you. Next question is from the line of Vaibhav Vatkar from IWealth Management. Please go ahead.

Vaibhav Vatkar: Sir about smart cities and Swachh Bharat mission, Swachh Bharat mission I think so yearly they have about target of 160 million toilets so considering your price points of sanitaryware, how much do you think that you will likely be taking benefit and incrementally from your current sanitaryware volumes?

R. B. Kabra: The Swachh Bharat you have to divide in two parts. One is the very, very low-end project, which are being done by municipalities or panchayats or the state governments where they are buying squatting pans for Rs.100, Rs.150. Today we are not present in that segment, but as you are also aware that because of this compulsory CSR lot of corporate houses have also announced that they will be spending big money for toilet building and sanitation out of their CSR allocations which are 2% of their profits, that particular area will be available to us because those corporates will be doing a good job they will not be going for a poor quality or terna products which will last or which will not last and we have been already supplying material to them for their commercial projects, or offices and residences and everything, so for the government projects a very, very low end government projects not today but we are also looking at doing some sourcing tie-up with the small skill manufacturers we are looking at it but yes the very low end we cannot tie-up today.

Vaibhav Vatkar: In short then you can say that there will be no such incremental business from this?

R. B. Kabra: Yes, it will be as I mentioned but the corporate houses which would be spending money on the ground they start building toilets that business will come to us and then you see the rework because the small skilled sector which is around 38%, 40% if they get their capacities dedicated to the Swachh Bharat Abhiyaan then whatever they sell in the market that market will be available to the organized player.

Vaibhav Vatkar: In terms of smart cities, I think so my considering your price point...

R. B. Kabra: The total capacity in the country today of the sanitaryware manufactured is around 27 to 30 million pieces a year, small scale and large scale put together. So out of 30 million, 45% volume is there, which is with the organized and 55% is with the unorganized. So you take it as 50-50.

Vaibhav Vatkar: Thank you for that.

Moderator: Thank you. Next question is from the line of Jagdishwar Toppo from Axis Capital. Please go ahead.

Jagdishwar Toppo: Just wanted to understand what percentage of your building product market would be replacement market and how has that market behaved in last one year and do you expect it to keep it up?

R. B. Kabra: I have been answering this question and let me tell you the replacement market if you talk 15 years ago it was more or less nonexistent. The people started replacing toilets only last eight, ten years when the people started changing the tiers they started traveling abroad, they started seeing the better bathrooms and better products. Earlier if you see the mentalities toilets, and the bathroom or toilet was the unitarian place it was not so luxury so and when people started spending money they had an access to the designs and everything and that is how our product profile also changed that. We only had one brand called Hindware when we launched Hindware Heart, then we launched Hindware Italian collections, because we could see the shift in the customer mind from a standard product to a designer product and today Hindware Heart and Italian collection contribute around 56% - 57% of the revenue of the sanitaryware. So the replacement today as per the market research what we have done country as a whole around 8% goes for the replacement and 92% goes for the new construction but in our case for our product around 12% goes for the replacement and balance goes for the new construction and why our share is for many things because of the reach, because of the larger number of designs we offer to the customers and the designs we offer at a various price points, so at every additional Rs.200, Rs.300 you can get a better designed product, so depending on the customer's budget he can pick up the product.

Jagdishwar Toppo: Sir my second question is I can see your website I think you evok.in you have created I think essentially or something so what is the thought process this is looking like totally internet e-commerce driven channel that you want to propose to sell a lot of products across various segments?

R. B. Kabra: I do not know whether you are aware or not but we have a one subsidiary company, Hindware Home Retail Private Limited.

Jagdishwar Toppo: No I am not aware of.

R. B. Kabra: That is a subsidiary company have revenues of around 100 Crores and that sells the furniture, furnishing, tabletops, mattresses everything which goes for home improvement. So Evoke is that brand, so that company has created this site running the product online, there is nothing to do with sanitaryware or faucets for that matter.

Jagdishwar Toppo: It is a different business, all right sir. Thank you so much.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to Mr. Prashant Kutty for his closing comments.

Prashant Kutty: Sir I just have a couple of questions over here. Sir if you could just help us share what is the share of premium products in our portfolio, what is the percentage of that the Hindware Heart and the Hindware Italian Heart?

R. B. Kabra: I have just mentioned around 57%.

Prashant Kutty: Sir just one more clarification over here you just said that the building products growth that we are expecting for the next year is about 15% to 17%.

R. B. Kabra: Yes.

Prashant Kutty: So this I believe it has become muted as compared to whatever earlier commentary was in terms of a 20% kind of a growth rate?

R. B. Kabra: Yes, because we thought that the market will pickup but still we see that it is little away so that is why we had a little...

Prashant Kutty: This is also despite having a fairly favourable base in FY 2015 that is the reason I want to?

R. B. Kabra: Yes.

Prashant Kutty: Thank you Sir. Thank you very much. On behalf of Emkay, I would once again like to thank you all for joining on the call today and sir if you would have any closing comments.

R. B. Kabra: Yes, Mr. Sikka, will give the closing comments.

Sandeep Sikka: I am Sandeep. I just joined here as CFO from April 1, 2015. The closing comment I would say the prospects of the industry is good. There is a transformation, which is happening on the consumer side. There is up buying which is happening in the industry and we believe that in times to come we will be able to achieve our numbers as the growth number which we are seeing. Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Emkay Global that concludes this conference call. Thank you for joining us. You may now disconnect your lines.