



“HSIL Limited Q3 FY2017  
Earnings Conference Call”

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**Moderator:**

Ladies and gentlemen good day and welcome to the Q3 FY2017 results conference call of HSIL Limited hosted by Emkay Global Financial Services. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask the questions at the end of today's presentation. Should you need assistance during the conference call, please signal for an operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Dhaval Mehta of Emkay Global. Thank you and over to you Mr. Mehta.

**Dhaval Mehta:**

Good evening everyone and welcome you all for Q3 FY2017 earnings con call of HSIL. We would like to thank the management for giving us opportunity to host this conference call. So from the management, we have with us Mr. Sandeep Sikka – CFO, Mr. R.B. Kabra – President Building Products and Mr. Naveen Malik – Head Corporate Finance. So we will start with opening remarks by Mr. Sikka followed by Q&A. Over to you Sir.

**Sandeep Sikka:**

Thank you Dhaval. So at the start of conference call, I would like to refer to the disclaimer from our investor presentation. Certain statements in this conference call concerning our future growth prospects are forward-looking statements within the meaning of applicable securities laws and regulations and involve a number of risks and uncertainties, beyond the control of the Company that could cause actual results to differ materially from those appearing in such forward-looking statements. You are requested to refer to the disclaimer from our investor presentation before acting or taking any decisions on the basis of this conference call..

So we closed the quarter ended 31 December, 2016 so results for the quarter and nine months ended 31 December 2016 have been prepared in compliance with the applicable Indian accounting standards which are IND AS as notified by Ministry of Corporate Affairs. The corresponding results for the quarter and nine months ended 31 December, 2015 have been also restated for the purpose of the comparison. So for the quarter and the nine months ended 31 December, 2016, we achieved a gross sales of around Rs.514 Crores and for nine months Rs.1515 Crores, this represents a very marginal growth when you see on a quarter-on-quarter basis of half a percent and when you see a nine months so we have around 10.8%-11% growth over the previous year corresponding period. 10.8% is relating to nine month of operation.

The operating profit that is earning before interest depreciation taxes and amortization for the quarter and nine months ended 31 December, 2016 is around Rs.74 Crores and for nine months is Rs.233 Crores and when you see the previous year corresponding figure is Rs.99 Crores and Rs.248 Crores. I will separately explain the results for drop in profitability especially the EBITDA at the end of my discussion.

The company basically as all of you would know operates through two basic business segments, one is a building products and other is a packaging product. In terms of the segment revenue, the building product division for the quarter and nine months ended 31December, 2016 achieved sales for Rs.281 Crores and for nine months Rs.818 Crores, so this represents a growth of 5.5% and 14.6% over previous year corresponding figures respectively.

Segment revenues for the quarter and nine months ended 31 December, 2016 for the building products includes sales relating to consumer product business which we started last year of around Rs.35 Crores and Rs.85 Crores for the nine months and when you compare this with the previous year corresponding figure, the figure is Rs.25 Crores and Rs.44 Crores for the last three months and nine months.

If the same is netted down from the overall segment revenues of the building product, the sales growth for the quarter and nine months, for the building products excluding CPD is 2% and 9.4% respectively, 2% for the quarter and 9.4% for the nine months ended 31 December, 2016. So EBIT for the building product division for the quarter and nine months ended 31 December, 2016 is around Rs.31 Crores and Rs.103 Crores as compared to previous year corresponding figures of around Rs.44 Crores and Rs.113 Crores respectively.

The EBIT level expense for consumer products as included within the building product segment for the quarter and nine months ended 31 December, 2016 is around Rs.7 Crores and Rs.16 Crores and this is compared to previous year corresponding figure of around Rs.5 Crores and Rs.8 Crores respectively.

When we talk in terms of packaging division, packaging division for the quarter and nine months ended 31 December, 2016 achieved a sales of Rs.239 Crores and Rs.709 Crores as against previous year corresponding figure of Rs.261 Crores and Rs.688 Crores so which means on a quarter basis the sales was little bit shrunk but on a nine months basis, there is a slight growth on the overall basis on the packaging division.

EBIT for the packaging product division for the quarter and nine months ended 31 December, 2016 is around Rs.25 Crores and Rs.75 Crores and when we try to compare this with the previous year corresponding figures, it is around Rs.38 Crores and Rs.79 Crores, I have rounded out the figures to the nearest digit wherever possible for the ease of understanding.

So coming back to the basic things why the EBITDA during the quarter is lower, so during the quarter ended 31 December, 2016 there is a drop in overall EBITDA as well as the business' EBIT as compared to previous year corresponding quarter, primarily on account of certain factors which inter alia includes one, last year the quarter when we see for the packaging product division, there was one other income item which is an incentive receipt of Rs.9.99 Crores from the government of Telangana by the packaging product division under the mega project scheme which in the current quarter is not there. So this is a sort of an incentive scheme which was available to the packaging product division and this quarter, there is no receipt from the government on this scheme.

There is an additional EBITDA level expense of around Rs.2.26 Crores as I explained on the consumer product which we were incubating the distribution as well as the product side as compared to the previous year there is a slight increase in power and fuel cost of around Rs.4.68 Crores on an overall basis so this is a subset of fuel like we use LPG, we use PET COKE but the PET COKE prices when we see on a quarter-to-quarter basis it has increased but on a nine months basis it is almost still lower as compared to previous years.

Then there is one M2M impact, which is mark-to-market on the derivative contract which we have taken. That note we have already also disclosed as a part of the results, so there is an impact of around Rs.2 Crores on that and rest is more or less the business expenditure increase which includes within market distribution cost and certain other expenses which are linked to the business. And for the overall three months and nine months the PBT is around Rs.40 Crores and Rs.128 Crores as compared to previous year corresponding figure of Rs.62 Crores and Rs.137 Crores.

So that is broadly from our side and I think we are open to question if any from the participants.

**Moderator:**

Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

## **Question and Answer Session**

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**Prashant Kutty:**

Thank you for the opportunity Sir. Sir just firstly in terms of the expenses which you just spoke about in terms of the consumer appliances business you said the consumer appliances the cost involved this quarter was about 7 Crores versus 5 Crores last year right?

**Sandeep Sikka:**

Your language is not clear but as I understood I think you are talking about what is the EBITDA level loss of CPD?

**Prashant Kutty:**

Yes, I mean, am I audible now, I will repeat the question, what I asked was the consumer products you said the CPD division loss in the quarter was about 7 Crore versus 5 Crores last year right?

**Sandeep Sikka:**

Yes.

**Prashant Kutty:**

Okay, the reason I am asking that Sir is because if I typically look at the... if I actually expect number then I am still looking at EBIT margin of about 8.4% in the building products business if I expect number actually. Could you probably help us understand why there is such a sharp drop in the building product margins...? If you could just help us that part I mean... even if I add that back still I am looking at about 13% kind of margin only, if you could just help me understand that logic?

**Sandeep Sikka:**

So there are subset of various heads of income which gets classified, now we have other operating income and other income also so let us not go into very minute things like the insurance claims and other things, I will just quote one example so there is a difference of around 2 Crores approximately in the insurance claims received last year. This is actual insurance received from the insurance companies on account of when you have a fire and other things and this year it is lower so these are all contingent things which keeps happening on the business but definitely there has been some increased sales and marketing cost also, there have been some savings on the production cost but as you say like this was in November and December we had an effect of demonetization for all reasons we wanted back the sales flow to the market should be there. So that is the primary reason, so we have a subset of various reasons I think for the purpose of confidentiality it would not be good for us to disclose each and every line item.

**Prashant Kutty:**

Sir just want to add an extension to this part I mean you spoke about sales and marketing spends, was there anything kind of additional which is given to the trade and probably during this post demonetization period which is why probably your sales and marketing cost must be a little higher or was it just the usual sales which is there?

**R. B. Kabra:**

No you are right, there were some more giveaways to the dealers.

**Prashant Kutty:**

If you could highlight a few of them Sir?

**R. B. Kabra:**

Yes, that is there were some more giveaways to the dealer so that at least we can keep the sales in the market place otherwise the demonetization could have had effect in terms of sales, could have been negative, so to maintain the sale we had to give some extra incentives to the dealer.

**Prashant Kutty:**

Okay. Maybe like something kind of extra margin, which you would say actually.

**R. B. Kabra:**

Yes.

**Prashant Kutty:**

Okay. Also would you actually see an increase in your overall inventory levels as well not at your level but at the dealers level maybe probably there would have been a little bit of push from your end anything of that sort I mean any such thing visible as far as the dealer side is concerned?

**R. B. Kabra:**

No that is not visible at the dealer's end as such, hardly because in last few quarters we have been reducing inventory at dealer level by opening more and more depots, like you talk of five years ago we had only two, three depots now we have around 22 depots all across the country, so dealers have been reducing the inventory because everybody is smart and everybody now calculates the ROCE and other things, so over the period the dealers have been reducing inventory but let me clarify there are actually three kinds of dealers we have, one is only wholesaler, who only distribute to the retailer. There are some only retail and there are some mix of both, they do wholesaling as well as retailing. So the inventory level you talk of the wholesaler always keeps two, three, four weeks' inventory because the SKUs being so large, he always keeps inventory of three, four weeks so that he can supply his customers whatever they want because from the plant he gets only truck load materials and he cannot keep ordering truck load every fourth day or fifth day so always maintains the SKU balance which sells in his area. So in that case that there is no increase, nobody stocks in today's time, more than what he can sell or what he expects to sell.

**Prashant Kutty:**

Sure. Again sorry to come back to this margin part of it, what I basically referring to was I understand that there must have been some one-offs as far as this quarter is concerned also higher sales and distribution expenses, just wanted to understand incrementally what is the kind of EBIT margin number that you kind of keeping in your mind as far as the building products business is concerned, Sir I am saying is ex your consumer business because if I look at the nine months number I am looking at somewhere about close to 17.6% last year which has kind of come down to 15.4%. Is it also a mix factor over here which is there or if you could just probably highlight these factors over here?

**R. B. Kabra:**

If you talk of the breakup broadly let me tell you that we have been telling that the margins in terms of sanitary ware and faucets are different because the products are different, so and we mentioned that the faucets growth is much higher than the sanitary ware growth as base was low and we commissioned a new plant two and a half years ago so ultimately in percentage terms the margins will look lower but if you see the EBIT percentage what we have reported it is 10.9% , 14% in Q2 and 12.6% in Q1 so but if you see the Q3 sales is lower than Q2 which normally does not happen in our case. In our case Q1 is the lowest quarter than Q2 is higher than Q1 and Q3 is higher than Q2 and Q4 is higher than Q3 that is how it progresses and because of the fixed cost absorption being less because this time the sale is lower than Q2, it also affects the percentage in terms of EBIT or EBITDA what you talk of.

**Prashant Kutty:**

Okay so maybe incrementally can we say that this could be the level of margin which we kind of expect given the fact that you are going to be seeing increasing contribution from faucets as well?

**R. B. Kabra:**

I think it should improve depending on how the money circulation improves and demonetization effect goes down, the margin should come back where we were, around 14% or 15% EBIT level we have been operating but yes, there could be some impact of faucet share going up which could be 0.5% to 1%.

**Sandeep Sikka:**

So I think the better way to see would be not on a quarter-to-quarter basis may be for next one or two quarters maybe if you iron out the things on a rolling 12 months basis or a 4 quarter basis because every company has a different subset of internal product mix so and since the markets today are very complex and also due to demonetization, the full impact may not have been fully absorbed because until and unless the full level of money supply happens in the market so there can be some flips maybe one quarter on net. When I say flips is slight changes in the how we approach the market in terms of our distribution and how we incentivize the trade and because when we were there in November, people were anticipating, there were number of discussions which are going around how much would be the drop in sales, so ultimately when you see on a building product overall apple-to-apple basis excluding CPD we have grown around 2% on a quarter also. So for us, I think the sale is important so that circulation of the products in the market should be there, so that helps in lowering of inventory and also keep the overall circulation on the factories and also the overall circuit of the trade alive and active.

**Prashant Kutty:**

Sure. What is the growth rate in faucets and sanitary ware if we can just know what that number quarter-to-quarter is?

**Sandeep Sikka:**

No historically we have not been giving those numbers separately but today on a broader product mix faucet is around 29%-30% of our product mix and sanitaryware is around another 60% and 10% is the other wellness products.

**Prashant Kutty:**

Have growth rates improved as far as January is concerned any kind of a number or maybe how was December and January trend?

**Sandeep Sikka:**

So January we like to avoid any comments today as of now.

**Prashant Kutty:**

Okay sure, thank you very much and I shall come back in the queue.

**Moderator:**

The next question is from the line of Rajiv Rastogi from Velvet Lotus Capital. Please go ahead.

**Rajiv Rastogi:**

Hello, Sir is there a possibility of demerger of the packaging division from the consumer product division?

**Sandeep Sikka:**

So on this point, I think we have been discussing on last few calls so as of now nothing is being considered as far as the demerger is concerned.

**Rajiv Rastogi:**

No what are the measures you would be considering for increasing the ROCE and increasing the shareholder value?

**Sandeep Sikka:**

So if you see on the building product side we are investing into this new business one is we are expanding into sanitary ware with the improved product mix, second is our share of faucet in the overall market on the faucet side is increasing year-on-year, and third is we have around year and a half back incubated a new consumer product business which is a new distribution channel to the market, and fourth is on the glass side also although the quarter's performance is not that great because the demonetization had slightly impacted them also but when you see the nine months, there is a substantial improvements and that unit actually creates a lot of EBITDA. It's only the depreciation which is there. So overall we are trying to create efficiencies in the system, we are trying to expand our go-to-market approach with the CPD as a new product line then we launched into bring some value additions like caps and closures, was a value addition

to the glass business which we were doing. So these are the steps which we were working on towards the improvement of the business ROCEs and also create a value for the all the stakeholders.

**Rajiv Rastogi:**

No but even if I exclude that glass business and look at the building product division I find that we are nowhere near the market leader, I do not want to take names of competitors, but if you look at their ROCEs they are far ahead of us, so where are we lacking.

**R. B. Kabra:**

So the building product ROCE is around 20%, what is your calculation?

**Rajiv Rastogi:**

Sir that is fine but if you look at overall we are not since last few years I mean if you look at the kind of growth our competitors are having and that we are having, there is a disconnect?

**R. B. Kabra:**

No listen, when you say that ROCE in building product is around 20% that is what I am saying now, if you agree to that number then I think the ROCEs are very good if you do not agree to that number then I can clarify that how the ROCE is 20% is arrived at.

**Rajiv Rastogi:**

Sir please do.

**R. B. Kabra:**

So what do you agree with 20% or you do not agree with the 20%.

**Rajiv Rastogi:**

No Sir, please I want to understand your point of view.

**R. B. Kabra:**

Yes, so ROCE 20% to me is a very good for any business, how many businesses are there who run at 20% ROCE, so we think that 20% ROCE is very good but I think when you calculate as per the balance sheet, there is one item called BRR, Business Reconstruction Reserve, okay, so that was created by revaluation of our land assets so that you have to exclude because actually that is not the investment.

**Sandeep Sikka:**

And also when you see our results as we have been saying you know, you see the net EBIT while calculating ROCE also includes the cost relating to the CPD so you have to subtract that also. So I take your question but given the, now one set of industry and other two set of industry cannot have the equivalent numbers at all times, some of the times we are up and some of the times we are not, so we cannot modulate the data to competition so this is the data which is coming out of our business operation.

**Rajiv Rastogi:**

No Sir, the reason I asked this question is because for last many year we underperforming the competitors.



**Sandeep Sikka:**

I do not know how you benchmark that.

**Rajiv Rastogi:**

If you look at the market performance and any other things I mean from as being a shareholder of HSIL, I can tell you that the other companies competitors has given far higher return as compared to HSIL and this is a long-term trend which I am mentioning I am not mentioning any things related to demonetization or anything like that it is a general comment I am making.

**R. B. Kabra:**

So when you said that the competitors are performing better you talk in terms of share price or you talking in terms of the performance in terms of growth or in terms of profitability what...

**Rajiv Rastogi:**

Everything profitability, market share and kind of even the market price performance because market price is the function of...

**R. B. Kabra:**

Market price we cannot comment because ...

**Rajiv Rastogi:**

No I know that is why I am saying market price is just a function of the performance of the company, I mean market is a weighing machine.

**R. B. Kabra:**

No listen, at least my experience goes that the market is not as rationale as you talk off that the performance is always reflects into the share price because I have seen many companies performance remaining the same price is falling 30%-40%. So why this kind of correction take place I do not think I am the right person, you know better than...

**Rajiv Rastogi:**

No I agree with you 100%, but my only point is that we should take some shareholder-friendly actions like demerger or something which can help the shareholders...

**R. B. Kabra:**

I can only say with the percentage the promoters hold 50% in the company and their interests are much bigger than anybody and they should be more worried if the performance is really bad so I think we are doing our level best but share price I do not think we can comment here.

**Moderator:**

Thank you Sir. We will take the next question from the line of Amar Kalkundrikar from HDFC Mutual Fund. Please go ahead.

**Amar Kalkundrikar:**

Hi thank you for the opportunity. On top line, is it fair to say worst is over in terms of demonetization impact?

**R. B. Kabra:**

I think one quarter this quarter could also be a subdued quarter looking to the market intelligence and what we interact with our dealer network and other people in the trade.

**Amar Kalkundrikar:**

Okay. Secondly on this Telangana incentive, why is it not there in this quarter and when will it come?

**R. B. Kabra:**

They give actually once in a year, so this year also around Rs.8 Crore is due but when they disburse actually that depends on their fund availability.

**Sandeep Sikka:**

From the accounting point of view when the full level of certainty is there and in fact when the money is received that time we take this into books of accounts because otherwise if the certainty and timing of that receipt is not ascertained, so then it will be there as a debtor. So we have been consistently following this policy all across and that is in line with the applicable standards. And now coming... sorry, what was your question?

**R. B. Kabra:**

The second question for this year I think if they disburse the funds depending on availability of fund allocation to the industries department from the government so this quarter probably they did not have any fund if you ask me whether we will receive in Q4 I do not know so whenever they have funds they distribute in terms of certain ratios to various people what they have to pay and what kind of funds do they have but yes our claim is there, that is what I can say.

**Amar Kalkundrikar:**

And lastly Sir on this question have been asked on the margins of BPD business you have shared some information but I think that fall in margins is quite surprising and quite concerning so to the extent you can share if could share some more specific data point that would be very helpful and also some idea as to what should one expect going forward?

**Sandeep Sikka:**

I think taking a full level of the extrapolation from Q3 may not be the... I will not say that the right thing but I think, when we were in Q3 when especially walking in November – December the biggest concern in the market was that sales should continue as we have said, so I think Q4 also we are just trying to push as much as we can in terms of achieving the growth which have been historically showing but that always comes with the caveat as a market absorbing the availability of the market, the cash availability in the market but on a broader sense, we are working on various initiatives so that we can build up those margins but one point which Mr. Kabra said is when we see apple-to-apple percentages on a year-on-year basis they may shrink because the percentage of faucets is a major market where we are growing and eating the market share so that will optically bring down the percentage margins as we move forward.

**Amar Kulkundrikar:**

Can you at least clarify if the decline in core sanitary ware, not faucets, core sanitary ware would it have been of double digit magnitude in the quarter?

**R. B. Kabra:**

Decline in margins?

**Amar Kulkundrikar:**

No decline in sales of sanitary ware.

**R. B. Kabra:**

No, I think that is not correct. Decline in double digit is not, here it cannot happen at all.

**Amar Kulkundrikar:**

No you said 2% is the growth excluding CPD now obviously within that faucets would have grown and sanitary ware would have declined...

**Sandeep Sikka:**

Only percentage of faucets is lower as compared to sanitary ware so you have to adjust that also.

**R. B. Kabra:**

Sir the base of faucet is small that also please understand , I can if you give me a few minutes, I can give you exact or the nearest numbers, let me look at the papers which is possible... let me see... I think I will have to check those numbers and get back to you. I will come back to you.

**Amar Kulkundrikar:**

Yes, if you could share that information on the call because what you are saying is if mix is the reason for fall in margin we just want to understand how much of it has come from mix change? Yes, that is it from my side.

**Sandeep Sikka:**

In the interim I think we can carryforward and we can take this question subsequently if you allow.

**Moderator:**

We will take the next question from the line of Priyank Sangvi from 5Y. Please go ahead.

**Priyank Sangvi:**

Thank you my question has been answered.

**Moderator:**

Thank you. The next question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

**Anshuman Atri:**

Yes, thank you for the opportunity. My question is regarding the consumer product segment, so what all the channels you are planning to use, you are seeing products on the internet, how much of sales can be pushed through internet and the kind of discounts we are seeing online is it by the retailer or also given by the company?

**R. B. Kabra:**

if I come back to your earlier question, the sanitary ware growth is 2% and the faucet growth is 21%.

**Sandeep Sikka:**

Now coming to your CPD question, the primary focus of business although we are not trying to target all the channels to the market which is e-commerce model and as well as the modern trade. So there are certain products like air purifiers and other things we do distribution with Flipkart, e-commerce players, but our core is more focused towards the consumer appliances channel, consumer product channel to the market so we have more than 4000 touchpoints today and over last as we have been saying in our calls, so we are trying to align to the market both in terms of the dealer distribution as well as the ecommerce as well as the modern retail.

**Anshuman Atri:**

Okay. My second question is regarding the demand in retail versus institutional segment, how much have you seen in terms of and any particular region which has done well and one region which has done worse than other regions and what was the demand in retail versus institutional, a ballpark figure?

**Sandeep Sikka:**

So for us for the quarter when we see the retail is pretty strong so it is around 82 to 85% and balance is the institutional which is just thin, which we have. Even the long term trending on our business has been also the same although may be for one or two quarters it may slightly go up and down but on a broader basis when we talk around 75% of our, on a medium-term to long-term basis 75% to 80% we target towards the retail and balance towards institutional on the building products side.

**Anshuman Atri:**

Okay, any estimation on what kind of demand destruction was done, was there in the retail versus the institutional during demonetization and how it has been the recovery post demonetization?

**R. B. Kabra:**

I think the institutional sale is the worst sufferer in this last quarter if you talk off. Institutional sale has suffered very badly because we have spoken in last few calls that we have stopped giving long credits or supplying without any postdated cheques in the institutional segment because we were getting stuck for a very long period so that has been the worst sufferer, of course retail also suffered especially in tier II and tier III towns where the money circulation was problem than the big cities, so big cities probably have started reviving back. I think tier II and tier III will take this quarter because now supply is improving, the ATM withdrawal is increasing so things should improve now going forward but as per our estimate as I just mentioned that this quarter could also remain subdued because of the money circulation issues.

**Anshuman Atri:**

Okay, thanks a lot and all the best.

**Moderator:**

Thank you. The next question is from the line of Sanjay Satpathy from Ampersand Capital. Please go ahead.

**Sanjay Satpathy:**

Hi Sir, my first question is relating to this consumer products where you have been saying that you have been incubating it, can I get a sense of like for how long it will continue and also if you can give us an update on the other segments that you were planning to get into like pipes and many others what is the status there?

**Sandeep Sikka:**

So consumer I think we have already as a part of my discussion I have disclosed the data so a separate disclosure would be required when you reach threshold of around 10% of the segment turnover. So I think maybe next year we will evaluate and try to show the figure separately. As far as the other new projects are concerned the caps and closure project is expected to be up running by March end, the pipes project we are now expecting to be running to start commercial production somewhere in August and there is a slight change in the cost also on the pipes side because we are investing more into moulds and machine because we see a bigger market opportunity and as we move forward I think pipe segment, caps and closures, CPD, so these are the pivotal we are focusing on the for next level of growth of the company.

**Sanjay Satpathy:**

And how much will be the total capex for this year and next year?

**Sandeep Sikka:**

The total capex which is yet to be done is somewhere around Rs.360-370 Crores which will be spend over next 12 months and this includes various elements of maintenance and the normal capex also. So it is broadly spread between various segments of building products, certain normal capex in the glass division and then these projects like caps and closures and pipes and all these projects included I am talking of.

**Sanjay Satpathy:**

Okay and you mentioned that the consumer product will report separately probably next year, my question actually was relating to when it will breakeven and has it been impacted by the demonetization, so that it will...

**Sandeep Sikka:**

Consumer product business actually has been slightly more impacted than any other business and as we had given a guidance that we were touching a turnover of somewhere around Rs.140-150 Crores historically so we may miss slightly by few Crores on that because that is one business where we see that we are missing our numbers during November, December, although some recovery has happened in the month of January on those businesses but it is still early to comment. But these are the new businesses, these are

the new products so we are just seeing how the market comes back, but definitely this is the high growth area for us.

**Sanjay Satpathy:**

Okay. And Sir lastly just wanted to understand from you like a lot of people are like already focusing on it say there are other company like tiles and other consumers electrical companies all of them Sir probably equal kind of impact in the top line and their growth has been kind of similar to that of your's but no other company have reported as much decline in margin as HSIL is it because your bargaining power with dealers and your pricing power is far lower is that the reason?

**Sandeep Sikka:**

I would like to answer that question you know any performance of our company on a medium- to long-term range based on a quarter may be too short, so I think if you see the first half was pretty good for us and most of the dealer distributors who are there with us they have been aligned to us for pretty long so we operate through more than in any quarter more than 2600 active distributors although the list is 4000 and their alignment to us is pretty strong but I would request market not measure us on a quarterly basis like so one quarter is down so that our relationship with our dealer, distributors is not that strong. So we work on a medium- to long-term strategy and we give guidance also on medium- to long-term strategy.

**Sanjay Satpathy:**

Understood. Thanks a lot and all the best.

**Moderator:**

Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

**Prashant Kutty:**

Thank you for the opportunity again Sir. Just a couple of questions here on the growth side of it.

**Moderator:**

The line of the current participant seems to have dropped out, we will move on to the next question that is from the line of Anurag Randev from JHP Securities. Please go ahead.

**Anurag Randev:**

Good evening Sir, thanks for the opportunity. Sir I just wanted to know if you can just repeat this numerical question that quarterly and nine month contribution from the CPD if you can repeat that.

**Sandeep Sikka:**

So when you talk in terms of consumer product, you want the sales or the EBIT?

**Anurag Randev:**

Sales Sir.

**Sandeep Sikka:**

Sales of the CPD during the quarter Q3 was Rs.35 Crores and the nine months was Rs.85 Crores and when we compare this with previous year corresponding figure is Rs.25 Crores and Rs.44 Crores.

**Anurag Randev:**

Okay Sir, coming onto the contribution from CPD will eventually increase, again the concern right now is on the what I understand is on the core sanitary ware on a product category because there our growth has been quite you can say subdued and if we look at this trend has been continuing for the last one, one-and-a-half years because if you compare FY2015-2016 numbers also, I am carrying on to FY2017 this has been the trend, what I want to understand is, is there any structural change happening within the sanitary ware market where some kind of market share changes are happening, some new players coming, if you can just put some color on this particular segment.

**Sandeep Sikka:**

So I think this question was asked by another gentleman from HDFC Securities also, so broadly if we give broader guidance of last nine months on sanitary ware, I would like to give a guidance on the quarter right now, so our sanitary ware growth has been in a range of 9% to 11% and faucet growth has been in the range of somewhere around 28% to 32% depending on month to month. So it is not that we are degrowing in the overall segment, so basically what is happening is the sanitary ware is a big chunk of the pie, which is around 60%, 62% and faucet is somewhere around now at 27% to 29%, so the weightage component also plays an impact, the base index also plays an impact, so 10% growth on a bigger sector is much higher, so that comes into the play, so optically it looks that we are not growing, but it is not that we are not growing, so we are growing in tandem to our strategy which we are adopting internally.

**Anurag Randev:**

Any major steps we are looking at in the market Sir especially in the premium segment how we are positioning because our own feedback when we tried to have some interaction with the different dealers in the market that both at the upper end and at the lower end, the things are getting a bit crowded and so do you think that the margins we are right now making on sanitary ware we can continue with this kind of margins.

**R. B. Kabra:**

The market has always been crowded, it was never a monopoly market, if you talk of lower end we have been always saying that starting from 90s mid 80s small scale industry started coming in a big number, in Gujarat state and the reason was that those time the excise duty went as high as 46% on sanitary ware and those people by tax evasion or tax avoidance, they thrived and there are around 200 units which are working in a small scale manufacturing anywhere between 150 pieces to maybe 500, 600, 700 pieces a day, some of them even grown to now 2000 pieces a day, so at lower end they have been in market. Market share in terms of the number of pieces but as I have been mentioning the shift has been from unbranded to branded if you talk of the overall value. Ten years ago it used to be 60% unorganized and 40% organized, now it is 60% organized and 40% unorganized that is like happening in all segments. More and more people are going for branded segment, more and more people are going for designer sanitary ware, so per piece value for people like us is much higher than per piece value if you talk of the small scale people. We could be anywhere between 2.5 times to 3 times in terms of realization per piece if you compare with the small scale people, so logically we have been vacating the low end of the market because the customer there does not

pay for quality, customer does not pay for aesthetics, does not pay for the design, so we have been telling in last few calls that Swachh Bharat thing you talk of maybe we got a very, very negligible share of so many toilets getting build because they buy all those product at L1 rates, there quality does not matter, anything does not matter, even if it is warped by 10, 15, 20 mm, it is still accepted. Our warpage limit is 2 mm, so that space we have never been there, if you talk of the higher end yes there could be 1% customer segment, they have decided that they will only go for the imported products, they have this mindset, not that the quality is better, our designs are better that is the reason that we launched this brand called Queo under which we only sell imported sanitary ware. We import from Europe and we sell it, now that brand is growing around 30% per year, so we are also trying to get into that segment, but the brand is relatively new, it is only four-year-old brand, so it is going to take time. Our Hindware Art, Hindware Italian Collection, and Queo put together they are around 53%, 54% of the sanitary ware sale what we have, which we call it a premium range.

**Moderator:**

Thank you. We will take the next question from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.

**Kamlesh Kotak:**

Good afternoon Sir. Just wanted to check about our capex plan you said Rs.350 Crores can you just split how much has been spend in this year and how much we are going to spend next year that is one and second thing what is the status of our sanitary ware and faucet expansion, I mean is there anything that also has changed in the line of the demand scenario?

**R. B. Kabra:**

The expansion actually we started in last year for sanitary ware and for sanitary ware expansion we budgeted around Rs.45 Crores for expanding capacity by four lakh pieces. One lakh piece at Bahadurgarh and three lakh pieces at Bibinagar and all that capacity expansion was planned in the premium segment pieces as I just mentioned our share in premium segment is increasing, and that work was already started, so we are not holding that work that this Bahadurgarh work will end by March, Bibinagar work will end by June. Out of that Rs.45 Crores, we already spent around Rs.27, Rs.28 Crores, balance only Rs.17 Crores to be spend, so that is on the sanitary ware front. Faucet we mentioned that whenever we want to expand from 2.5 to 3.7 million pieces that will incur a capital cost of around Rs.40 Crores. So for 2.5 million we spent around Rs.130 Crores, for half of that capacity we will be spending only Rs.40 Crores. That work has not yet started though we have a board sanction to go for it, but I think the work will start sometime by end of this calendar year, because the current capacity utilization of plant is anywhere between 55% to 60%.

**Kamlesh Kotak:**

For faucets?

**R. B. Kabra:**

For faucets, so I think the expansion will take anywhere between 6 to 8 months from the day we start because we need not construct building, only additional machineries would be imported, installed and commissioned. That has time period starting from ordering to commissioning around anywhere between 6 to 8 months, I think we will start by December this year, if the market revives as we expect that next year should be better than what quarter we have seen or the fourth quarter we are expecting, so if the market



improves we will start by end of December otherwise we can postpone for another three months, but that work has not yet started.

**Kamlesh Kotak:**

Sir what is our utilization in sanitary ware plant you said 50, 55 for faucet right?

**R. B. Kabra:**

Yes, the sanitary ware capacity utilization is around 89% to be precise.

**Kamlesh Kotak:**

On 4 million pieces.

**R. B. Kabra:**

Yes.

**Kamlesh Kotak:**

Secondly Sir any price revision that has been considered or anything that we are contemplating going forward over the medium term as we speak?

**R. B. Kabra:**

As we mentioned that we were in tile business a few years ago, we entered and we had to shut it down, logically we were not able to make the kind of margins, which we were expected to make and we all know that tiles is a very large market of around Rs.25,000 Crores, but starting from scratch and building revenues from zero looks difficult to get any kind of impact in the market place, so if going forward any opportunity comes in for acquisition or merger or tie up then we can look at it, otherwise starting from zero I do not think we are looking at it.

**Kamlesh Kotak:**

And in the existing products any price revision that has been considered?

**R. B. Kabra:**

Very little, the existing only we are selling stocks, so it was around Rs.40 lakh in this last quarter that is all.

**Kamlesh Kotak:**

So no price revision either in, because the prices of metal particularly have started rising, so in that context have you seen any price revision for our faucet business particularly?

**R. B. Kabra:**

Price revision for faucet?

**Kamlesh Kotak:**

Yes.

**R. B. Kabra:**

Price revision in faucet was done last year, not this year.

**Kamlesh Kotak:**

Okay, the prices of metals have started to firming up, so are we absorbing that cost or we intending to pass it on to the...

**R. B. Kabra:**

We are very clear, we are not market leader in faucets, so we have to see that how market leader reacts, if he increases prices then only other people increase, otherwise people do not increase.

**Kamlesh Kotak:**

Okay, alright. Thank you very much Sir.

**Moderator:**

Thank you. The next question is from the line of Sunil Kothari from Unique Investment Consultant. Please go ahead.

**Sunil Kothari:**

Thank you very much Sir. What is the status of Hindware Home Retail, we were planning to reorganize stores and wanted to reduce the loss, can you update Sir.

**Sandeep Sikka:**

That we filed the scheme of arrangement with the high court of Calcutta in August 16 and on 6th January 17 we had our shareholder meeting which was convened by the High Court and after that now with a new structure, all the scheme of arrangement has now moved into NCLT and now after the shareholder meeting the results of that meeting has been filed with High Court and we have made the second petition before NCLT, so how fast the NCLT works I think that is what we are trying to see because it's a new governing body instead of the high court now i.e. effective 15th December 2016.

**Sunil Kothari:**

Sir I am asking about the business how it is improving or deteriorating because we are making some loses last year we made some Rs.18 Crores loss, so what is the...

**Sandeep Sikka:**

So broadly in terms of the results we have slightly degrown when we see as compared to last year, but we shutdown few non-performing stores and we have reduced the number of stores and just trying to relocate the stores now as a part of the future strategy so that we can bring back that turnover into the system.

**Sunil Kothari:**

Hopefully Sir this year will be lower loss from that division?

**Sandeep Sikka:**

Yes, but I think let us wait for Q4 and then we will be able to comment on that.

**Sunil Kothari:**

Broadly looking at this demonetization GST coming do you see any structural shift from unorganized to organized branded, unbranded to branded all these things where it will put us on a sustainable, which margins should we account both the division maybe over next two, three year period.

**Sandeep Sikka:**

I think with GST coming in all that tax evasion, which was happening in the market that definitely will get ironed out and most of the guys who are operating ideally under the normal circumstances they should have shut down the stores, their shops because of the tax evasion, but people do find certain ways, but we feel that benefit should come through post the implementation of GST to more branded and organized players so because most of these players especially in the few regions in India they also produce some counterfeit also in the unorganized market and the branded players do suffer along with them, so GST should be able to iron out that also as we move forward.

**Sunil Kothari:**

Sir long-term margin expectation should be what around 15% EBIT margin is expected.

**Sandeep Sikka:**

From sanitary?

**Sunil Kothari:**

EBIT segmental margin?

**R. B. Kabra:**

Segment margin building product you talk of yes, anywhere between 14% to 16% as we have been doing, so this quarter has been exceptionally low because of the various reasons as we all are aware, but I think anywhere between 14% to 16%.

**Sunil Kothari:**

And packing division Sir?

**R. B. Kabra:**

Packaging division whatever we have currently the EBIT margins are in the range of around 10%, last quarter if you talk of the EBIT margins are 10.5% and they have been stable, this quarter, it is around 12%.

**Sunil Kothari:**

Thank you.

**Moderator:**

Thank you. The next question is from the line of Samar Sarda from Kotak Securities. Please go ahead.

**Samar Sarda:**

Good evening. Sir a couple of questions on the PPD and then the BPD division, with regards to the furnace which is not yet working and given whatever is happening right now, would you say the new furnace like this will start only in FY2019 now?

**R. B. Kabra:**

FY2019 I cannot say, but yes we were actually planning to start this furnace sometime in February this year, but that has now been postponed because the FMCG sector which consumes bottle for packaging has been badly affected because of the demonetization. FMCG is the worst affected sector if you really ask me and if they are not able to sell their product they are actually buying less bottles. So this decision has been postponed till when I think again depends on when the market comes to normal. Our current capacity utilization in the glass business is on the three furnace operation is around 87%, so once if the market picks up then we will have to light up the furnace otherwise we wait like we have been doing for last three years.

**Samar Sarda:**

And Kabra Ji you mentioned the cost of like the pipes plant has gone up, so it was Rs.105 Crores, if I am not wrong, so it has gone up by how much?

**R. B. Kabra:**

It was actually initially we mentioned Rs.105 Crores, now it is going up by Rs.28 Crores and it is a mix of three, four, five things, number one because of the change of location the building cost has slightly gone up then we have decided to go for more number of moulds and machines to manufacture fittings because the margins in fittings are better, so we will be making more number and more types of fittings for the CPVC and PVC.

**Samar Sarda:**

Okay and my last question was on the market Kabra Ji when we say like the building material market is like say Rs.3500 Crores or so...

**R. B. Kabra:**

That is for Sanitaryware.

**Samar Sarda:**

So will that be the case today or that was the case earlier because there is no real agency, which gives out a correct number, given the size of the industry, which is the real estate industry that is one, two in our case when we define retail, which is 75% to 80% is it strictly an end-user or it also includes like smaller buildings, which are 10, 15 units or 15, 20 units?

**R. B. Kabra:**

So I will answer in two parts, the sanitary ware market when we say the Rs.3500 Crores it was at the end of last financial year, now if you ask me is that a certified number, no, it is an estimated number, right estimate,

yes, it is a very right kind of estimate, there is an association called (INCOSAMA) Indian Council of Sanitary ware Manufacturers, so they put up a study for the small scale sector, large scale numbers are any case reported, so based on that it was around Rs.3,550 Crores and market is growing around 10% on average if you really see, so by end of this financial year it could be anywhere between Rs.3800 to Rs.4000 Crores, so that is the total market for sanitary ware. Coming to the second part of your question, what was the second part?

**Samar Sarda:**

Kabra Ji definition of retail it is strictly an end-user or it...

**R. B. Kabra:**

You are right that when we say the institutional retail we call institutional when we directly either negotiate or invoice to institution directly. There are two ways either we directly supply some large builders, hospitals or hotels or our people negotiate the contract and we supply through dealers. So that is only institutional, you are right that if somebody building a 10 apartments or 12 apartments in some place in Guwahati or some place in Bhopal and he does not buy directly from us then for me it is a retail sale, because I do not even come to know, he buys from the local dealer where he has the contact and we sell to the dealer and there is no special discount negotiated on those kinds of contracts. Whatever extra discount is given, given by the dealer from his pocket, so when we say institutional where we negotiate the prices, which comes at a very higher cost than the retail.

**Samar Sarda:**

Thanks a lot and all the best for 2017.

**Moderator:**

Thank you. The next question from the line of Achal Lohade from JM Financial. Please go ahead.

**Achal Lohade:**

Good evening Sir. Thank you for the opportunity. I just wanted to check in terms of the overlap between the building products as well as consumer products if you could talk a little bit about the distribution side of it, how much overlap it is and how do we look at the – what is the target mix from the consumer products in the building products division?

**Sandeep Sikka:**

If I understand you question, you are saying that in terms of distribution what is the overlap?

**Achal Lohade:**

Correct Sir.

**Sandeep Sikka:**

I will say the overlap is marginal to an extent of around let us say maybe 10% to 20% the range is 10% why because few of the sanitary ware counters may sell water heaters.

**Achal Lohade:**

Okay.

**Sandeep Sikka:**

And predominantly we are focusing to create a separate distribution channel on a CPD as a part of strategy. So if you see our business, our key products are kitchen appliances, which is kitchen hoods and hobs. We are focusing on water heater, so both these segments are growing exceptionally well in the market then last year we have worked on air purifiers, on water purifiers and also on room coolers, so most of these are separate segmentation as far as the sanitary ware and faucet counter is concerned because most of the sanitary ware and faucet counter is very separate, now very new, display is different as compared to these counters, so in terms of integration of both the counters is very marginal, may be relating to few products, but not as a part of the strategy we are trying to integrate that, so we want that CPD should have a separate go to market approach with separate distribution and a separate dealer network.

**Achal Lohade:**

Okay and what is the mix right now and what is the expectation let us say three years down the line?

**Sandeep Sikka:**

On the consumer side?

**Achal Lohade:**

Yes Sir.

**Sandeep Sikka:**

Around 45% of the sale is towards kitchen appliances which is kitchen hoods and hobs, water heater is also increasing, so water heater is again somewhere around 20%, 25% of the market and rest is the new products which we are trying to incubate over a period of time.

**Achal Lohade:**

Okay, so I was checking about...I am just completing this clarification actually needed of the building products how much is the mix from the consumer products as of now and what is the expectation Sir?

**Sandeep Sikka:**

If I understand you are asking about sales of CPD in the BPD?

**Achal Lohade:**

Yes Sir, correct.

**Sandeep Sikka:**

I think I have spoken about it. So far the quarter, the sale of CPD is Rs.35 Crores and for nine month is Rs.85 Crores as compared to Rs.25 Crores and Rs.44 Crores correspondingly.

**Achal Lohade:**

And the expectation Sir?

**Sandeep Sikka:**

Going forward, initially we had spoken on the conference call that we were targeting CPD to do a sale of somewhere around Rs.135 Crores to Rs.150 Crores, but based on certain demonetization issue, we may be nearing that but probably may miss those targets slightly.

**Achal Lohade:**

Right, I believe you talked about FY2017 if I am not wrong.

**Sandeep Sikka:**

Yes, FY2017.

**Achal Lohade:**

I am just more curious to know the medium-term perspective how are you looking at?

**Sandeep Sikka:**

I can get you medium term thing so we are expecting in three years, we will be touching a turnover of may be around Rs.400 Crores to Rs.500 Crores in this business.

**Achal Lohade:**

I will come back in the queue Sir. Thank you so much.

**Moderator:**

Thank you. Mr. Prashant Kutty your line is unmuted. Please go ahead.

**Prashant Kutty:**

Sir just a couple of things sorry if it was repeated I just got disconnected in between. With regard to the market, you were just talking about the sanitary ware market, I understand you have been saying that competition has been pretty much there all the time, but just wanted to understand over here is that lately I have actually seen couple of tile players getting a little aggressive as far as the sanitary ware business also concerned, they have been speaking about faucets growth as well and if I may actually know obviously pretty much know that they have a fair amount of distribution reach as well. So just trying to understand over here I understand is obviously going to be difficult task for them as well, but this understanding has something changed over here as to why everybody has gotten little aggressive as far as the sanitary ware businesses is also concerned even though the faucets business is concerned. Is it that this is probably a very huge opportunity which is probably there which is now maybe captured in the sanitaryware market actual data?

**R. B. Kabra:**

No, that is not the case like. If you have been tracking results of the players in the tile and sanitary ware business, again since sanitary ware have been always much higher than the tiles business and we have been always telling the distribution is common, anybody selling sanitary ware also sell tiles and anybody

selling tiles also sell sanitary ware if you talk about the retailer end. So the people who are selling tiles, whatever sanitaryware we can sell this will only add to improving their margins and normally everybody thinks that if the distribution is common, the channel is common, they will be able to garner some share of the market and especially it is possible when the market itself is growing. If you talk of a mature market where growth is only 1%, 2% then getting market share from existing player becomes very difficult. When the market is growing at least you find some customer who will buy a new brand. So that is how that everybody has been thinking of selling sanitary ware from the tile industry or from the faucet industry or the tile people thinking of selling faucets, so we entered into faucet business, so this is happening currently. Now at what level you can reach without having manufacturing facility. Ultimately you can service to a particular end of the market sourcing a lower end sanitary ware. For the whole spectrum of customers if you want to really address then you have to have manufacturing facility. If you ask me yes getting a revenue of Rs.50 Crores, yes it is possible by trading, getting a revenue of Rs.500 Crores no, that is my experience because of the faucet, because we started faucet eight, nine years ago, we reached revenue Rs.30 Crores and we were finding difficult to source quality products from the market, because all these people are small scale people then quality and servicing becomes the issue we had to buy a small plant and we put a big plant. So yes, there is a market, market will be growing, market has grown, everybody will try, but the existing player, if you talk of us, you talk of Parry, if you talk of Cera, who are there for more than 40, 50 years like we are there for 55 years, Parry is there more than that, Cera is for about 40 years. Between three of us if you talk on the branded market we have more than 80% market share.

**Prashant Kutty:**

Just to light with that have you been actually seeing lately or maybe in the recent past where the dealers have gotten a little more aggressive, they are probably asking maybe the existing players for more freebies because maybe the newer players are getting a little aggressive. Any kind of such trends which are visible as far as the market is concerned and again an extension to that is do we on account of that feel that may be they would have probably with some bit of throw up to the dealer margins or something of that sort and which could eventually lead to let us say margin probably contraction as far as sanitary ware market is concerned, are those kind of things possible?’

**R. B. Kabra:**

I will answer you in few parts. If you talk of 15 years ago, 80% dealers were dealing in one sanitary brand. Now if you talk today may be 80% at the retail end are dealing in multi-brands. So that is one big change in terms of market because earlier Hindustan Sanitary Ware dealers were keeping only Hindustan sanitary ware of course he was keeping other products tile of some body, faucet of somebody, pipes of somebody, geyser, but if you talk of sanitary ware, he will have our brand, if you talk of faucet, he will have Jaquar, if you talk of tile, he will have Somany or Kajaria, whatever, whatever, which could be 70%, 80% are now multi brands and the reason is like we vacated the low end earlier we were selling a lot of squatting pans and Indian pans which were the cheap products. We stopped manufacturing most of them, because the price bands are so low, so they have to keep some kind of low-end brand, so that they do not turn away the customer. Similarly some customer come there specifically asking do you have some imported brand okay that could be 1% or less than 1% of the customer. There is somebody who started keeping some imported brand it could be X, Y, Z. So similarly at least three brands became minimum at retail outlet and if you talk of competition yes, there will be anybody, at high-end there is no competition, because they sell by design, because they are not a price-sensitive buyers, if you talk of 1%, if they like Queo they will buy Queo, if they like Duravit, they will buy Duravit, if they like V&B they will buy V&B and they are not guided by the price. But if you come to the premium and upper premium segment, then we Parry, and Cera, we control the bigger of



the market share and as I just mentioned 53%, 54% of our revenue comes from the premium and the upper middle segment, which is our Hindware Art, Hindware Italian Collections and Queo.

**Prashant Kutty:**

So in total basically we have not seen any kind of dealer kind of push from the end or something of that sort, maybe they are probably asking more or something anyway?

**R. B. Kabra:**

What we are doing is that to promote that the more loyalty to one particular brand of sanitary ware, we are opening more and more Hindware Galleria at the dealer place, but we do the layout, the improvement as per our standard designs, we have three year agreement with them that they cannot remove the display, they will be selling only Hindware Sanitary Ware largely, so all those things are happening and by year end we will be having 150 Galleries.

**Moderator:**

Sorry to interrupt Prashant Kutty.

**Prashant Kutty:**

Thank you very much.

**Moderator:**

The next question is from the line of Grishma Shah from Malabar Investments. Please go ahead.

**Grishma Shah:**

Sir just one question that I have on demonetization you did highlight that the smaller towns or the tier 2, tier 3 cities had higher impact, if you could tell us region wise which were the regions which saw higher impact of demonetization and which have seen a stronger bounce back post that?

**R. B. Kabra:**

The reason was very simple that dealers in tier 2 and tier 3 towns they are not equipped for the cashless transactions. They did not have that point of sales swiping machines, so people who are buying in cash and not really the black money, but they were withdrawing from the bank and paying to the dealer in cash. Now, there was a restriction on the withdrawal, there were ATMS with big queues, money was not available, so people will first spend money on what are their essentials and they can really postpone purchases of such items, so that is the end, this problem was much bigger in the faraway places when we say tier 2, tier 3 towns because money supply in bigger towns, became easier and faster than these places. So these places have taken longer to get to the normalcy.

**Grishma Shah:**

I get that but if you had to look at north, south, central, west, and east of India, how are these regions performing for you, I believe you are much stronger in the west?

**R. B. Kabra:**

No, we have been telling that the largest part of our revenue comes from the south, and then next is north and west and then east. If you ask me any particular region what more impact on demonetization no, because the percentage or the ratios of revenue generation from these four has not changed much in this quarter.

**Grishma Shah:**

Okay and why do you think even Q4 would be a little muted given the fact that now the norms have been reasonably relaxed if you look at?

**R. B. Kabra:**

Norms have been relaxed but still they say this is the mentality that if you create shortage of something, the hoarding increases. So still in the savings bank account if you talk of there is a still limit from the withdrawal, people are still little more cautious spending on a big ticket item.

**Grishma Shah:**

Okay and real estate, this is the last question.

**Moderator:**

Madam, there are participants waiting for their turn.

**Grishma Shah:**

Okay, fine. Thank you so much.

**Moderator:**

Thank you. The next question is from the line of Sunil Kothari from Unique Investment Consultant. Please go ahead.

**Sunil Kothari:**

Sir we have added Rs.200 Crores approximately quarter-on-quarter on total assets, related to which segmental you have already given this asset, what is related to this you can talk something on this?

**Sandeep Sikka:**

So you are talking about PPD or you are talking about BPD?

**Sunil Kothari:**

Actually combine if you take Q2 to Q3 there is an addition of Rs.195 Crores offering, there is unallocated also, so broadly if you can?

**Sandeep Sikka:**

So, there is some part coming from the capex and the rest is towards the .in packaging division there has been some buildup of inventory because the sales got suffered slightly in November and especially in December, so it will be more linked to that.

**Sunil Kothari:**

Unallocated has gone up from Rs.540 Crores to Rs.640 Crores?

**Sandeep Sikka:**

Sorry.

**Sunil Kothari:**

Unallocated amount segmental assets that has gone up from Rs.540 Crores to Rs.640 Crores?

**R. B. Kabra:**

This is because of these common borrowings what we have like ECBs we will borrow and then we allocate to the respective business when it is capitalized okay as long as it remains in CWIP we do not allocate to the respective business, I think these two projects are going on. One is for the pipes and one is for the caps and closure.

**Sunil Kothari:**

Last question is what is the debt at present, net debt and gross debt?

**Sandeep Sikka:**

If you see the total debt which is there Rs.695 Crores as on December 31st 2016 and the total cost of funding is 4.91% and that is broadly being of which the working capital debt is around Rs.325 Crores and rest is the long term debt.

**Moderator:**

Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Dhaval Mehta for his closing comments.

**Dhaval Mehta:**

Thank you everyone for attending the call. I would like to thank the management again for giving us the opportunity to host this call. Sir would you like to make any closing comments?

**Sandeep Sikka:**

I think we see optically with the results definitely we agree the numbers are not that in terms of the market expectation but based on the questions which have been asked been very informative and also what you have to see is what is the medium- to long-term strategy of the organization, so if you see the nine months results looks better than the quarter and we have broadly given the broad guidance on Q4, but I think the overall strategy of the company has to be understood by the markets and especially in terms of investment into the consumer products, pipes business and also the caps and closure and we are growing both on sanitaryware and faucet side, so we require some time wherein we can demonstrate the overall numbers going forward.

**Dhaval Mehta:**

Thank you very much.



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**Management:**

Thanks Dhaval.

**Moderator:**

Thank you. Ladies and gentlemen with that we conclude today's conference. On behalf of Emkay Global Financial Services we thank you for joining us and you may now disconnect your lines.

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