“HSIL Limited Q2 FY2017 Earnings Conference Call”

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Moderator:

Ladies and gentlemen, welcome to the Q2 FY 2017 results call of HSIL Limited hosted by Emkay Global Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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 -- Research Analyst of Emkay Global. Thank you and over to you, sir!

Dhaval Mehta:

Thanks, Lizann. Good evening, everyone and welcome to Q2 FY 2017 Results Con-Call of HSIL Limited. I would like to thank the management for giving us opportunity to host this call.

From the management, we have with us today; Mr. Sandeep Sikka -- CFO; Mr. R. B. Kabra -- President (Building Products); and Mr. Naveen Malik -- Head (Corporate Finance).

So I would now handover the call to Mr. Sikka for his opening remarks. Over to you, Sir!

Sandeep Sikka:

Yes, thank you, Dhaval. And good afternoon to all the participants who are there on the call. At the start of the conference call, I would just like to refer to disclaimer from Investor Presentation that certain statement in this conference call concerning our future growth prospects are forward-looking statements, within the meaning of applicable security laws and regulation and may involve a number of risks and uncertainties which are beyond the control of the company and that could cause actual results to differ from those appearing in such forward looking statement. And we would request to refer to the disclaimer from our Investor Presentation at our website before acting or taking any decision on the basis of the conference call.

So, as regard the results for the quarter and the half year ended 30th September, 2016, all these results have been prepared in compliance with the applicable Indian accounting standards which is IndAS as notified by Ministry of Corporate Affairs. The corresponding results for the quarter and half-year ended 30th, September 2015 have been restated for the purpose of apple-to-apple comparison and they have also been transitioned into IndAS.

HSIL for the quarter and half-year ended 30th September, 2016, achieved gross sales of Rs. 506.75 crores and that is for the quarter and for half-year Rs. 1,000.91 crores representing a growth of 18.54% and 16.92% respectively over the previous year corresponding figures.

The operating profit that is EBITDA for the quarter and half year ended 30th September, 2016 is Rs. 83.53 crores and Rs. 158.99 crores representing growth of 1.36% and 6.81% respectively over the previous year corresponding figures.

So, you would all know the company operate two main business segments. So, in terms of the segmental revenue the building product division for the quarter and half year ended 30th September achieved sales of Rs. 286 crores and Rs. 537 crores representing a growth of 17.54% and 20% over previous year corresponding figure.

Segmental revenue for the quarter and half-year ended 30th September, 2016 for the building product division includes the sales relating to the new consumer product business and the sale of that business is Rs. 28.17 crores for the quarter and Rs. 49.54 crores for the first-half of this year as compared to Rs. 11.79 crores last year for the quarter and Rs. 18.48 crores for the first-half year. If we net off this consumer product sales from the building product sales, sales growth for the building product quarter and the half-year ended 30th September, 2016 would be around 12% and 13.6% respectively and on the EBIT side also. So, EBIT for the building product division for the quarter and half-year ended

30th September, 2016 is Rs. 40.19 crores and Rs. 71.93 crores as compared to previous year corresponding figure of Rs. 39.77 crores and Rs. 69.13 crores respectively. The EBIT level net loss of the consumer product division as included within the EBIT of the building product segment for the quarter and half-year ended 30th September, 2016 is Rs. 5.51 crores EBIT loss for the quarter and Rs. 8.06 crores EBIT loss for the half-year as compared to previous year corresponding figure of a EBIT level loss of Rs. 2.45 crores for the quarter and Rs. 2.86 crores respectively for the half-year.

So, consumer product division has carried forward the growth momentum from the previous year as we could see the sales of the consumer product division on a quarter-to-quarter basis have grown by around 2.4 times that is Rs. 28 crores as compared to last year of around Rs. 12 crores and in terms of the distribution so, we have already more than 250 distributors and touching more than around 4,000 active retail touch points in the consumer product side today.

Another big thing on the EBIT side of the building products segment for the quarter and the half-year ended 30th September 2016 is relating to mark-to-market gains on derivative contract and so, the EBIT of the building product segment for the quarter and the half-year ended 30th September, 2016 also includes certain mark-to-market gains on derivative contracts which is Rs.0.54 crore for the current quarter for the current financial year as compared to previous year financial year quarter of Rs. 1.47 crores and when we try to see M2M gain on a half-year basis so, the first half-M2M gain for the building product is Rs. 1.27 crores as compared to last year Rs. 3 crores respectively. So, this basically is happening as a transition which has happened from Indian GAAP to IndAS and as per the IndAS all the derivative contracts hence forth are now accounted in the P&L account which till last year was part of the fixed asset schedule. So, the last year gains which happened on account of rupee depreciation so, they have been taken out of the gross block and now being classified under the so, which technically what happened is the gain which happened last year it has increased the EBITDA number as well as the PAT for the last financial year. As you can read out Note 3 and Note 4 of the published results.

Now if we take effect of EBIT level loss of consumer product division and also the M2M gain on derivative contracts and the impact of the changes in the depreciation, the EBIT growth for the building product division on a quarter-to-quarter basis is 11.28% and half-year is 14.82% respectively. The packaging product division for the quarter and half-year ended 30th September, 2016 achieved a sales of Rs. 223.75 crores and Rs. 470.10 crores respectively which represents a growth of 12.48% and 10.05% over the previous year corresponding figures. The main contribution towards the sales growth on the packaging side is on the glass and that is on account of higher sales to food and beverage channel, exports sales have also increased. The EBIT for the packaging product division for the quarter and half-year ended 30th September, 2016 is Rs. 24.62 crores and Rs. 50.31 crores as compared to previous year corresponding figure of Rs. 23.89 crores and Rs. 41.15 crores and this represents a growth of 3.06% and 22.26%.

So, as I was explaining the M2M impact on the building product, the similar M2M impact is also there on the packaging product so, this quarter and this half there is no M2M impact but last year there was a gain now which has been added to the EBITDA of Rs. 3.59 crores for the quarter and Rs. 2.62 crores for the full half. So, if we take this off from the balance sheet. If we net all these things. So, the overall growth on the EBIT level is 24.01% and 34.03% respectively for the quarter and half-year. And but this is after one more adjustment which is relating to good will amortization which as per the Indian GAAP that was being amortized over a period but now under the Indian GAAP it is linked to the fair valuation on a regular interval.

So, the company for the full quarter, overall the company for the quarter and half-year ended 30th September, 2016 and profit before tax of Rs. 48.31 crores and Rs. 88.18 crores for the half-year then this represents a growth of 5.49% and 17.23% over previous year this thing. And if we net off the impact of M2M gains and other IndAS adjustments which is relating to reversal of amortization of goodwill, impact on financial assets and liabilities, impact of actuarial gain losses, etc, so the adjusted PBT growth as per the Indian GAAP, PBT growth would be 18.46% and 26.95% over the corresponding figure.

Similarly, there is an impact on the profit after taxes which as per the published results profit after-tax is Rs. 31.49 crores and Rs. 57.97 crores and this represents a growth of 8.38% and 19.45% but if we give the impact of all the IndAS transition to the last year financials so, this growth figure becomes 26.3% and 29.9% for the quarter and the half-year.

So, this is broadly the brief summary, I know it is a long explanation and you may have certain questions on this and I would like to invite the questions so, that we can explain more if it is not yet clarified.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We take the first question from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Question and Answer Session

Anshuman Atri:

Yes, thanks for the opportunity. Sir, my question is regarding demand. Are you seeing any uptick in demand and if yes, from which particular region and how do you see the real estate activity say going forward next six months and for the whole year ahead?

R. B. Kabra:

Okay. So, you are talking for demand into the building product or for the glass or both?

Anshuman Atri:

Only the building product.

R. B. Kabra:

Okay. So, building product when you talk of our growth has been the highest in the industry which numbers have been reported whether a tile company or the Sanitaryware company and largely the growth has come from the Tier-II and Tier-III towns. The large towns are still under pressure, the large builders are still under pressure in terms of delivering the apartments what they are building but as we have been always mentioning that we are very strong in retail and we have been penetrating more and more in the areas Tier-II and Tier-III towns which were not covered by us, so, we are expanding our dealer network and sub dealer network and the large growth has come from Tier-II and Tier-III towns. And going forward, we see that, these towns will keep doing well and we will keep increasing our efforts to cover the areas where our products are not available to appoint more dealers or distributors or wholesalers so, that they can supply to the sub-dealers small trader from those areas which are not covered by our distribution network today and we hope that the market is not as buoyant as you would expect it to be but I think we would be doing better and better as per the market growth.

Anshuman Atri:

Okay. From the results, what we have seen is the Sanitaryware growth has been better for the industry as compared to the tiles. So, could you throw some more light to as what is driving sanitary higher than tiles growth?

R. B. Kabra:

It is very difficult for us to say that whether the Sanitaryware growth has been higher. Yes, for us it has been higher but if you talk of like CERA if you talk of they also sell large part of tiles and we do not know the break-up that how much their tile has grown, how much their Sanitaryware has grown but if you talk of like Somany their growth has been around 10% so except one player the growth has been lower everybody has been around 9%-10%-8% so, I think they have also grown in line with the market. As I mentioned the market is not as buoyant but we have done some corrections in the Tier-II and Tier-III town distribution that is why we have grown higher than the market.

Anshuman Atri:

Okay. And the second question is regarding the new product launches. And the projects which we are undertaking on the PVC side, what all products we have launched in the building products and what growth we see over the next six months one year and what kind of progress we have made on the projects?

Sandeep Sikka:

So, when we talk in terms of the building products, the rollout of the regular products, the regular even from the Sanitaryware side like as you would know in last six months we rolled out products like rimless in Sanitaryware and we are doing some advancements on the designs of faucets and other thing so, that is regular thing. But as I understand, I think your main question is more focused on the consumer product side, and in consumer product there are three to four main key segments like kitchen, hoods and hobs is a one big segment for us which the growth has been tremendous, water heater is another one we have air purifiers.

R. B. Kabra:

Then you know we have geyser, we have kitchen hoods and hobs which have been there for few years then we have cooktops, then we have kitchen sink…

Sandeep Sikka:

Air cooler is there and then off late now we are launching water purifiers also. And if you see the growth on a quarter-to-quarter basis it is good. Market has well appreciated the products. so, this quarter sales is around Rs. 28.17 crores and when we try to compare this with previous year corresponding quarter that is around Rs. 11.78 crores so, there is a growth which you can say is more than two times than the last year sales. So, products are well established but still there is a EBITDA level investments so, I will say EBIT level investments on this business as we have disclosed in last few calls also and the investment which we incurred on this business during the quarter is around Rs. 5.51 crores as compared to previous year corresponding figure Rs. 2.45 crores and if we adjust that there is a healthy EBIT margin for BPD and that you can see from the numbers.

Moderator:

Thank you. We take the next question from the line of Dipa Kashyap from Narnolia Securities. Please go ahead.

Dipa Kashyap:

Sir, congratulations for good set of numbers. Sir, my question is regarding growth. What would be the full year growth going forward for H2 FY 2017 as well as FY 2018?

Sandeep Sikka:

Generally now we do not give short-term guidance to the market because it gets really difficult to analyze the market on a very short-term basis. But as we have been telling the long-term growth story for the sanitation in India is pretty strong given the fact that the sanitation level in India is still very low. Although the main key initiatives for government of India's Swachh Bharat and others is more around the utility function right now. As we see forward people will build those toilets and bathrooms inside their houses and they will definitely move towards the up trending which is the branded product and that is how the long-term story of the business gets intact but broad guidance in terms of a medium-term to long-term growth, I think we can give a guidance of around 15% growth on the building product side and the growth on the packaging product side ranging between around 6% to 10% depending on the market condition, depending on the quarters as we move forward. Although the growth in the last two quarters has been good but we still like to analyze on the packaging product as we move forward. We are bullish on the business right now; but markets are a bit uncertain today as we move forward.

Dipa Kashyap:

Okay, sir, you did mention in previous call that our CAPEX will be around Rs. 350 crores so, it will be same or we can see some changes on it?

R. B. Kabra:

Those CAPEX are all committed, the work has started on CPVC and PVC pipe plant, work is on specialty closure project, the work is on, the Sanitaryware capacity expansion work is on, so whatever we have announced, all those CAPEX will be done over a period of next 12 months to 15 months and that is going to happen. Part of which have already been done, like if you talk of till date we must have spent more than Rs. 80 crores out of this Rs. 350 crores what we are talking of and then there also includes the lighting up of the glass furnace which was closed for three years because the growth has been good in packaging business as you are seeing in the numbers and we have started losing orders we are not able to serve the customers as per their requirement so, we have started work on lighting up the furnace because the refractories will have to be replaced and I think by February of 2017 the furnace should be lit up.

Moderator:

Thank you. We will take the next question from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty:

Sir, just a few questions first of all, on the consumer product business so, obviously if you look at the growth rate where is exactly this growth rate coming from when you talk about this Rs. 28 crores which is by the way actually seeing a higher traction and incrementally in terms of investments what are we looking at as far as for the consumer product business is concerned that is the second part of the consumer product segment, question and the third part is how are we placed right now on the distribution front?

Sandeep Sikka:

Prashant. So, I think, as I understand your question was where in the growth on the consumer side is coming up. So, I think it is an overall growth, when we talk in terms of the growth kitchen appliances have been well accepted, the growth of water heaters has been good and the growth of other products is picking up I will say like there are certain new products during the year which was air coolers and like water purifiers. So, as we grow managing the growth right now I think the mature products in the basket today are kitchen appliances and water heaters and rest of the products are new products like air cooler was launched in the summer season so, that has been well accepted and water purifier is very late just one month into the business so, that is the overall matrix of consumer products, right now.

Prashant Kutty:

Sure. What I was saying was what are the investments are you looking at investing in this part of the segment going forward? And secondly, what is the kind of breakeven level that we are expecting as far as this business is concerned?

Sandeep Sikka:

So, when we talk in terms of breakeven level, we feel that based on the current operations as we move forward, a sale of around Rs. 150 crores should breakeven full level of infrastructure which we have created for a distribution go to market model for consumer product and the first-half sales when we see today the H1 sales for the business is somewhere around Rs. 50 crores as compared to last year corresponding period of Rs. 18 crores. So, generally second-half is more better. So, around Rs. 150 crores of sales should breakeven the business and we have already given guidance that I think by March that we will be spending around Rs. 25 crores to Rs. 30 crores in this business at the EBIT level expense and in the first six months for the total expense on this business at the EBIT level is somewhere around Rs. 8.06 crores.

Prashant Kutty:

We have almost about Rs. 16 crores - Rs. 18 crores to go.

Sandeep Sikka:

Yes. So, a part of it was done last quarter also, so, may be slightly lower than this.

Prashant Kutty:

But when we say investments are we referring to both distribution as well as the advertising part of it or I mean what are referring to, it is the all-round expense that you are referring to, right?

Sandeep Sikka:

No, if you see in this business, this has a separate distribution channel to the market and for this there is a separate team within the organization, separate sales, separate marketing team, separate entire logistics teams we have separate warehouses, the whole idea of keeping this separate is that the growth of this business should not intermingle with any other growth of the businesses as we move forward and since we are still in incubation stage because business is just one and half year old into the company right now on this side. So, maybe I think in next 12 months we should be reaching that breakeven stage and the whole business will start getting positive on the EBITDA and bottom-line.

Prashant Kutty:

And where would we be on as far as the distribution side is concerned of the business I mean what would be the….

Sandeep Sikka:

So, we have more than around 250 distributors today and more than 4,000 retail touch points and as we try to see from last year corresponding figure it is more than double now in both the cases.

Prashant Kutty:

And you said we have a distributor model over here, right?

Sandeep Sikka:

Yes.

Prashant Kutty:

Okay. And so, second question is on the if you look at the recent activity which actually has happened with regard to the Rs. 500 note and Rs. 1,000 notes actually going off the system. How does it really impact or may be the dealer network over here or the retailer network over here even though from a very interim point of view how is the overall system really gets effected, if you could just give us some thoughts over here?

Sandeep Sikka:

Can you ask your question, I missed your words….

R. B. Kabra:

No, I will tell you Prashant, in the short-term it might affect the business, because suddenly you know that there is no money circulation in the system and by that time the money circulation normalizes there could be temporary setback to the sales but in the long-run, it will be very good for the organized industry like ours because there is no cash sales from our side, everything thing is invoiced, everything is done on record and we are not like small scale people who are part invoicing and the part is taken in cash. So, going forward with GST and with this kind of a thing, all organized companies will get benefited in the long-run but may be short-term may be in 30 days - may be 45 days may be 60 days there could be a temporary setback this is what my feeling about it. We have to go forward and see that how it moves.

Prashant Kutty:

What I was referring was, I understand the benefit to the organized players on account of this particular thing. What I am trying to understand more from is the dealer and the retailer point of view because from their perspective typically you might be billing with the dealer at may be on a invoiced basis and things like that. In terms of he probably having some cash in his books how does that really happened so, I am just referring to that part of the transaction, I mean how much do they really hold in terms of cash and how would that transaction go for them?

R. B. Kabra:

Yes, that is precisely what I told Prashant that because the customer who is the retail customer it is the large part for us because institutional customer you talk of, they have been only buying against cheques because you talk of builders, hotels, hospitals commercial spaces, now when you talk of the retail customers ultimately whatever money they have today, they have to get that money converted which might take some time deposit into bank withdraw and then start using it because ultimately our dealer who gets material with invoice he has to sell with invoice. Otherwise how he will balance his books. So, ultimately may be that is what I told you that precisely may be for few weeks by the time the money circulation normalizes the business should be as usual but yes, there could be four weeks, six weeks lull in the business at dealers end as well.

Sandeep Sikka:

While the whole currency notes quantity is available in the systems, there can be some flicks.

Prashant Kutty:

And one could entail a higher debtor days over here as well, at least for the next interim period?

Sandeep Sikka:

It is too early to comment on anything although we are trying to deliberate internally but I think the full level of repercussion it may be too early, we are still less than 24 hours in to the whole transition which has happened.

Prashant Kutty:

And just one last bit what was the Sanitaryware growth for the quarter you said?

R. B. Kabra:

Building product growth net of CPD is around 14%.

Prashant Kutty:

Would you able to share the Sanitaryware growth as well if possible?

R. B. Kabra:

That we are not sharing now, product wise we are not sharing Prashant.

Moderator:

Thank you. We will take the next question from the line of Jaspreet Singh Arora from Systemtix Shares. Please go ahead.

Jaspreet Singh Arora:

Sir, carrying forward on that question with regards to the development of last night, so, you have elaborated well on the building product side, so, I believe that is related more so with the B2C side. So, is there any broad sense if you could give on the B2B side from the real estate developers the kind of slowdown that you prima facie on a quick take basis and that would impact he the B2B side as well?

R. B. Kabra:

B2B we have not seen much market improving as I mentioned initially that whatever growth we are talking of the largely growth has come from Tier-II and Tier-III towns, the cities yes, the retail growth is there but builder side we are not seeing too much take off.

Jaspreet Singh Arora:

So, my question was given that the clamped down further on the cash in the system. Do you expect a further slow down on the real estate market from the smaller towns and cities?

R. B. Kabra:

Smaller town there is not a problem with the builders if you talk of smaller towns largely the individual home builders they have enough money on their own and or maybe they have enough loans lined up. Problem is largely with the large builders who are building 2,000 - 3,000 - 4,000 apartments. If you go to smaller cities or smaller towns there the builders build may be 30 apartments, 40 apartments and then they sell, they are not large scale builders most of them and they are reasonably financed so, I do not think they have a problem of that. We never face problem from the builder in the smaller towns where they make eight apartments, 10 apartments, 20 apartments, 40 apartments and sell it. So, I do not think that is going to get affected but yes, temporarily, we have to see how it goes off may be for few weeks, people have to understand what is the impact.

Jaspreet Singh Arora:

Sure. And within the basket of our building product space fair to assume that you expect the faucets to continue to dominate in terms of the growth run rate rates going ahead as well?

R. B. Kabra:

Yes, in terms of percentage growth faucets have been growing fastest in this quarter also as I mentioned in the last quarter as well. The faucets have been growing the fastest, Sanitaryware is also growing but yes, we feel that the faucets at least for another two to three years will continue to grow faster than the Sanitaryware growth.

Jaspreet Singh Arora:

Sure. And I do not know if we mentioned a line on the caps and closure so, fair to assume the project is on schedule?

R. B. Kabra:

Caps and closure project is on schedule and as we mention that in quarter four it will be commissioned and it will be operational during the quarter four.

Jaspreet Singh Arora:

And starting first quarter we expect the revenues from that side?

Sandeep Sikka:

Yes, project will build up over a period of time so, I think the first product launch will happen in Q4 then there are number of products which will get launched over a period of time.

R. B. Kabra:

Because for different kind of caps, we have different kind of moulds so, one kind of SKU will be launched sometime in February and as we keep adding the moulds which will be imported from Germany, we will keep adding the new SKUs.

Moderator:

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

Amar Kalkundrikar:

There is a margin contraction in PPD division, what is the reason for it and what kind of trends in margin should we see in H2 for this division?

R. B. Kabra:

Yes, Amar good afternoon. As Mr. Sikka has clarified actually if you compare like-to-like this margin shrinkage is looking only because of the M2M adjustment which earlier was getting adjusted into the gross block, okay. Now the new Indian Accounting Standard says that whatever mark-to-market profit or loss on your derivative it has to route through the P&L. So, on this accounting the last year quarter two the profits on M2M was much higher in Glass than in this quarter, this quarter actually there is no gain and last year quarter two, there was Rs. 3.5 crores impact so, if we delete that then the margins are maintained.

Amar Kalkundrikar:

Okay. And you are not experiencing any significant cost push on account of petcoke or anything?

R. B. Kabra:

No, not really. Yes, we talk of that the oil prices move a little bit but the actual cost because we are on the petcoke those prices whatever a little increase was there in last quarter has already been added on.

Amar Kalkundrikar:

Okay. And now price hikes during the rest of the year are also on the cards?

R. B. Kabra:

I do not think so currently. We have been talking on the calls normally we go to the customers when there is a cost increase and currently there is no such cost increase because of which we can go and justify the request for the price increase. So, if suddenly suppose the oil prices go up tomorrow or the raw material prices like soda ash or something goes up tomorrow then we have a case but currently there is no such situation, as I mentioned to you that margins are maintained so, I do not see in near future that there will be chances for the price increase in the packaging product.

Amar Kalkundrikar:

Okay. And the numbers that you mentioned for consumer products division which I think is Rs. 5.5 crores loss for the quarter and Rs. 8 crores for H1 these are EBIT level losses.

Sandeep Sikka:

EBIT level, Yes.

Amar Kalkundrikar:

And full year will Rs. 25 crores which last year probably was about Rs. 8 crores - Rs. 10 crores?

Sandeep Sikka:

Full year will be around somewhere between Rs. 18 crores to Rs. 22 crores of this year and since, the first-half is around Rs. 8 crores, so, in the second quarter generally activity picks up and we will have to do some marketing initiative also so, there will be some additional expense.

Moderator:

Thank you. We will take the next question from the line of Dhaval Shah from GBL Capital. Please go ahead.

Dhaval Shah:

Sir, my question is regarding the outlook on margins, so, can we see these kind of margins sustainable going ahead?

R. B. Kabra:

If you see the EBIT level comparison between BPD and PPD of the last year's quarter two and this year's quarter two there is a drop of 2.3% in the EBIT margins of BPD and around 1% drop in the PPD. And there are two exceptions if you really look at it – one is that I have just mentioned the M2M notional losses or profits whatever now has to routed through the P&L and if I also take away the additional cost of building the infrastructure and the marketing network for the CPD if both these are accounted for separately then the margins are equivalent to the last year's quarter two.

Dhaval Shah:

Okay. So, can we expect this 2015-2016 kind of margins to be easily achievable at least in next two quarters?

R. B. Kabra:

Yes, now how the dollar moves that is not in our hand and we are forced to route through the P&L whether it is notional or not it is not a realized gain or a realized loss. But it is M2M so, if the dollar suddenly moves up then there could be losses or there could be profits if the dollar goes down so, now that is not in our control but operational level yes, the margins will be met.

Sandeep Sikka:

I think based on the current market situation as of yesterday, not of today, there are few events which have unfolded like U.S. elections and certain government this thing so, I told you know this impact of this fully has to be understood as we move forward but given the conditions as we had in quarter two, we feel that the margins may sustain.

Dhaval Shah:

Okay. And sir, do we expect demand to be somewhat subdued because of this government action at least in near-term?

Sandeep Sikka:

There would be some flips. May be for few weeks and then I think the market then should pick-up and gain some momentum. But there are certain events like we have GST which we do not know the exact date, we do not know the full law, so, we would like to be proactive in telling that all these events may have some implication which we do not know as of now unless the rules are out.

Dhaval Shah:

And sir, lastly, what is the overall tax you pay, apart from this income tax may be excise and all that?

Sandeep Sikka:

So, generally we have an excise which is somewhere around 12.5% and sales tax ranging from state to state from 12.5% to 14.5%. Plus additionally, we have an additional implications of octrois and other cesses. So somewhere between I will say 26%-27% may be to 30% depending on state to state is the indication as of now.

Dhaval Shah:

So, any rate below 26 will be positive for you guys.

R. B. Kabra:

Yes.

Dhaval Shah:

May be 18% will be much positive for you?

R. B. Kabra:

Yes, certainly.

Moderator:

Thank you. The next question is from the line of Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar:

You have just now said that you are going to start the furnace in the month of February because of demand going up. So, do you see the margin going up for packaging products in the March quarter or if not the March quarter at least in the June quarter?

R. B. Kabra:

I think quarter three of the next financial year. Normally the June - September quarter remains weak for the glass industry so, starting from October December quarter yes, there should be some improvement.

Kaushik Poddar:

Okay, And secondly the caps and closure, that expansion when is it getting underway, the commissioning?

Sandeep Sikka:

The first commissioning is happening somewhere in end of January to February and then sequentially other moulds will also come into the picture because there are various SKUs so, it may be spread over six months to nine months as the moulds keep coming in we will keep increasing the SKUs over a period of time but we expect the first billing to happen by end of Q4.

Kaushik Poddar:

And because of the interest and depreciation for this project will the bottom-line be hit from this expansion?

Sandeep Sikka:

As the moulds and as the machines comes so, may be CAPEX may be also spread over a period of time but incrementally when I say when you kick-start definitely there will be some for some period may be in Q1 you may see some additional burden. So, if it is so we will disclose it appropriately.

Kaushik Poddar:

This hit will be from Q1 onwards you are saying?

Sandeep Sikka:

Yes, may be for few quarters.

Kaushik Poddar:

Few quarters and what is the total project cost and what is the payback period for the caps and closure?

Sandeep Sikka:

So, the total project cost is around Rs. 112 crores and we expect pay back somewhere in the range of 3 to 4 years to happen only.

Moderator:

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

Sanjay Satyapati:

Sir, my question is you are starting with new pipe business and I think you are spending about Rs. 100 odd crores on that just like this consumer business where you had to do all this investment of Rs. 25 crores - Rs. 30 crores of EBIT loss that you are showing, will we see similar kind of trend in pipe business as well next year.

Sandeep Sikka:

So, total cost of pipe project is Rs. 105 crores and may be two more expenses over the next one years or two years so, total we are expecting around Rs. 125 crores spread over next three years. The project should be up-running by the end of quarter one or may be early quarter two of the next financial year and as we move into the market, we already share part of the distribution of Sanitaryware which goes into selling the pipes also. But as any project will start for initial few quarters there would be some mismatch between the sales pick up and charging of interest and depreciation but as we wish every new project has a sort of breakeven point at which it translate into a positive EBITDA from the higher incidences and other things and then ultimately translate into the positive PBT level so, even for pipes there would be for one or two quarters, there would be some depreciation and interest expense which may be charged but in a long run it gets evened out.

Sanjay Satyapati:

So, compared to the consumer business where you have taken more than a year to breakeven in pipes in half a year you will be able to breakeven is that what you are saying?

Sandeep Sikka:

We feel that it will be much faster in case of pipes.

Sanjay Satyapati:

And what could be the key reason for that apart from the sharing the same distribution, is it something which you have already kind of put up your man power and everything in place?

Sandeep Sikka:

On the consumer product side, there are number of products, and like we have kitchen hoods and hobs, water heaters, air purifiers, etc, incubation time for the products some of the times take some time but for pipes it is more off the shelf product. So, you have CPVC, UPVC pipes and certain fitting and other things and so, being off the shelf the transition into rolling out the products is much more easier as compared in to the CPD product.

Sanjay Satyapati:

Sir, lastly if I can ask just like you said the closure business has a payback period of three year to four years similarly in pipe business what kind of payback period that we are looking forward to?

Sandeep Sikka:

Most of the businesses which we have considered internally based on the market conditions when they approved so, they have an ROCE of somewhere around 18% to 24% depending on the various market condition and the various scenario and then you can based on it you can guestimate it what sort of sorry, it will come through but generally it is four and half years - five years somewhere around that range.

Moderator:

Thank you. As there are no further questions, I would now like to hand the conference to the management.

Sandeep Sikka:

I think fair level of questions have been asked so, maybe we can sum up I think, last 24 hours have been a lot of discussions everywhere, markets definitely all the initiatives which government has taken are very good for the long-term development and the prospects of the industries like us and there can be some temporary flips and flops but ultimately we feel very strong that these initiatives will help in long-term growth of the organization. And I think with that, most of the things have been discussed on the call, anything Mr. Kabra you would like to say.

R. B. Kabra:

No, I think I have already mentioned that the growth on both the divisions if you talk of the building products as well as the packaging product has been better than the industry average and the margins have been maintained and good thing about CPD is that products have been well received in the market and it is in the very high growth trajectory so, I think going forward we should be able to deliver what we have been telling. Maybe a small-time flip because of this major development which has come because the money circulation till it normalizes and it starts the people have money in their hands to spend, people are wanting to spent money there is no doubt but the circulation might affect for some weeks otherwise going forward for the long run industry like ours this is a good move. So, thank you very much.

Moderator:

Thank you members of the management team. Ladies and gentlemen, on behalf of Emkay Global Financial Services Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.