# "HSIL Limited Q1 FY2018 Earnings Conference Call"

## August 16, 2017

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**Moderator:** Ladies and gentlemen welcome to the HSIL Limited Q1 FY2018 Earnings conference call hosted by Emkay Global Financial Services. We have with us Mr. Sandeep Sikka – CFO, Mr. R.B. Kabra – President Building Products and Mr. Naveen Malik – Head, Corporate Finance. As a reminder all participant lines will be in the listen-only mode, there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal 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 Sir!.

**Dhaval Mehta:** Thanks Tanvi. Good evening everyone and welcome you all for Q1 FY2018 earnings con call of HSIL Limited. We would like to thank the management for giving Emkay the opportunity to host this 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 and I would like to thank all the participants who are on the call today for attending this call. As customary at the start of the conference call, I would like to refer to the disclaimer which is there in our investor presentation that certain statements in this conference call concerning our future growth prospects are forward looking statement within the meaning of applicable security laws and regulations and may involve a number of risks and uncertainties beyond the control of the company that could actually cause actual results to differ materially from those appearing in the forward looking statements. You are requested to refer to the disclaimer from our investor presentation before acting or taking any decision on the basis of this conference call.

For the quarter ended 30th June 2017, we closed the results and we had a board meeting on August 11, 2017 and the results have been prepared in compliance with applicable Indian accounting standards - IndAS as notified by a Ministry of Corporate Affairs. Further, from the March 2017 results onwards the company has reorganized and changed the composition of reportable segments. Accordingly, we are reporting four segments and corresponding segments for the previous years have also been accordingly segmented. You may refer to the notes of the published results for further details and the participants may have gone through the published results and also the results which are there on our website, which are the detailed financial results.

In terms of the business performance, HSIL has for the quarter ended 30th June 2017 achieved a revenue of Rs.515 Crores, which is a marginal de-growth of around 0.50% over previous year corresponding figure. The operating profit i.e. EBITDA for quarter ended 30th June 2017 is around Rs.54 Crores as compared to previous year corresponding figure of around Rs.69 Crores. I will explain the results when we talk about the business segments. In terms of business revenues, building products division, which constitutes of basically sanitaryware products, faucets, and other wellness products and also the pipes for the quarter ended June 30, 2017 achieved a revenue of around Rs.233 Crores, which represented a marginal growth of 1% over previous year figure and EBIT for the building products division for the same period is around Rs.31 Crores as compared to previous year figure of Rs.34 Crores. This quarter was actually a bit unusual due to the fact that after the GST rates were announced on 18th May 2017 by the government there was subdued demand thereafter from both the dealer and the distributor network and that can be observed from various companies across the various channels and as a result of which our results are also subdued in terms of sales, which have impacted the growth as compared to the previous quarter's growth.

In the packaging division, for the quarter ended June 30, 2017, we achieved a revenue of around Rs.218 Crores against a previous year figure of Rs.246 Crores. There was a de-growth here, primarily again due to the impact of GST down the line and also the major reason was the Hon'ble Supreme Court order banning sale of liquor on the national highways and that impacted the sale of liquor all across the country and also the sale of all the ancillary products like bottles which goes into the packaging of the liquor. It impacted both the sales degrowth and as well as the EBIT. EBIT for the quarter ended 30th June 2017 was around Rs.16 Crores as compared to previous year corresponding figure of Rs.26 Crores. The drop is on acount of the results which we have already talked about.

Consumer product division is continuing with the growth and they have achieved around 90% growth with the revenues of Rs.41 Crores. The growth could have been higher. Despite the GST implementation they were able to maintain 90% growth over previous year corresponding figure. We had to invest in this quarter on additional marketing spends both in terms of advertisement and brand building, among other things. As a result of which the EBIT level loss is Rs.9.31 Crores as compared to previous year corresponding loss of Rs.2.55 Crores. The retail division which is Evok brand furniture stores did revenue of Rs.24 Crores against previous year figure of Rs.20 Crores which represents almost 20% growth and EBIT also improved. EBIT level loss last year was Rs.7 Crores, this quarter we closed with EBIT level loss of around Rs.3 Crores. Some improvement is happening in the retail division both in terms of sales growth and improvement on the EBIT, curtailing of EBIT level loss.

During the quarter ended June 30, 2017 there is an overall drop of EBITDA on account of factors which I have already explained and PBT for the quarter was Rs.17 Crores as compared to previous year corresponding figure of Rs.32 Crores. Main differences were one is the lower level of sales in the packaging division and also the higher level of investment in the consumer division. These are the two main points to be noted. Our building products division is almost at the same level, marginally lower in terms of EBITDA as compared to previous year, but the packaging products division and the consumer products division investment contributed to the difference between the profitability.

Profit after tax on June 30, 2017 was around Rs.12 Crores against corresponding year figure of Rs.21 Crores and the total net bank debt on 30th June 2017 was Rs.743 Crores and the overall cost of funding was around 5.45%. With all this, I will leave the house open for question and answer session. You can start the question and answer session.

**Moderator**: Thank you. We will now begin the question and answer session. The first question is from the line of Nehal Shah from ICICI Securities. Please go ahead.

**Nehal Shah**: Thanks for the opportunity. Sir, there are a couple of things. One is where do you see the volume growth coming in for next few months possibly post the GST transition happening now. Is it that the faucet sales were significantly lower compared to sanitaryware because GST impact should have been highest in the faucet sale where the rate has gone down dramaticaly from 27%, 28% to almost 18%. So where the de-growth or the lower sales kicked in particular in the last quarter?

**Sandeep Sikka:** It is more due to the GST impact. All across if you see there were number of places where stocking happened. It is not only for us. It is present across all major channels. The distributor will stock, the dealers will stock and may be sub-dealer may also stock. Post the announcement of the GST rates, some of the places they had advantage, in some of the places, they had a disadvantage. When we went to the market, we were talking, we were trying to educate our distributor, dealers. Actually all of them did not have a full level of clarity of what to do. They have been guided more by their own advisors which are their chartered accountants and from majority of them the feedback which came through to us was that our chartered accountants are telling us to hold onto the buying till 30th June 2017. The situation has not fully improved, but it will take another one month or so before the new festive season comes in when the actual stocking again starts happening in a normal course of business. Wherein from August 17 and September 17 onwards, the whole cycle should move back because right now if you see July 17 when we were talking to various distributors, they were still fighting in terms of getting the whole system ready in terms of IT, in terms of how many returns to file, the stock taking and everything. Major time of that has gone now. The business should be normal from the GST perspective by August 17 and going forward the festival season should boost stocking level, when the major spending from consumers may start.

**Nehal Shah**: Where do you look at growth for the building product division in particular for the full year now, considering the impact what it has had in last quarter maybe couple of months from now?

**Sandeep Sikka:** We are hoping for around 12% to 14% growth considering all the segments together and we strongly feel that Q3 and Q4 should be very good quarters considering the fact that Q1 had witnessed a lot of destocking across the counters, so they will stock back and that natural demand will flow through them.

**Nehal Shah**: So 12% to 14% for the full company as in for HSIL?

**Sandeep Sikka:** Not full. I am talking about building products.

**Nehal Shah**: For BPD.

**Sandeep Sikka:** Yes.

**Nehal Shah**: Okay and Sir in terms of margins where do you see margins – there are couple of things, one is margins in the container glass division or the packaging products division and the losses in the consumer products division. Where do we see those going say two, three quarters from now?

**Sandeep Sikka:** On the consumer side, for this quarter and even the last quarter which ended in the month of March 2017, we had launched water purifiers and there was a lot of media spend which happened and this was part of plan and historically we have given a guidance that touching a turnover of around Rs.250 Crores to Rs.300 Crores in the next 12 to 18 months, the business should look at breakeven at the EBITDA level in the last quarter.

**Nehal Shah:** Breakeven you are saying would be in the last quarter of FY2018?

**Sandeep Sikka:** We are expecting.

**Sandeep Sikka:** Given the circumstances, some of the things actually are outside the control of the company like demonetisation or something does not happen. In normal condions if we touch a turnover of Rs.250 Crores to Rs.300 Crores, ideally business will have sort of a breakeven.

**Nehal Shah**: At the EBIT level should be like Rs.30 Crores of EBIT loss in building..?

**Sandeep Sikka:** At that level?

**Nehal Shah**: For FY2018?

**R.B. Kabra:** FY2018 for the CPD?

**Sandeep Sikka:** On the total EBIT level loss it should be around Rs.10 Crores to Rs.15 Crores maximum.

**Nehal Shah:** Rs.10 Crores to Rs.15 Crores at EBIT level for CPD?

**Sandeep Sikka:** Yes.

**Nehal Shah**: And Rs.9 Crores we had in this quarter?

**Sandeep Sikka:** In this quarter, we did a lot of media spend.

**Nehal Shah**: Which is not that recurring going forward?

**Sandeep Sikka:** Yes. This is contingent on the strategy today, and tomorrow if we have to do another round, may be some additional expense may come through.

**Nehal Shah**: And the last thing Sir in packaging products where do you see margin stabilizing as that has gone down remarkably, obviously again because of the external environment?

**R.B. Kabra:** The packaging product division margin in this quarter in comparison to last quarter looks very low because the fuel prices in Q1 of the last financial year were very low. So going forward from the Q2 onwards fuel prices started rising. So if we see the EBITDA level margin which is around 17% which was more or less like in Q4 of last year as well. So I think the EBITDA level margin, we should be able to maintain anywhere between 16% to 18% also going forward. The absolute EBIT looks lower because of the two reasons. Number one, the sale was less by Rs.28 Crores for the various reasons beyond control one of GST and one the liquor ban and lot of other things. Because of the sale loss, some absolute amount has also been lost and because of the fuel prices. Fuel prices more or less have actually increased by 30% if you compare Q1 of last year. I think we do not see any further increase in the fuel prices going forward because the crude price is more or less stabilized. I think we should be able to maintain these levels of EBITDA margins 16% to 18% only concern now is the sale growth should pickup.

**Nehal Shah:** Do you see them picking up now?

**R.B. Kabra:** As I mentioned and Mr. Sikka just mentioned that people are still struggling to adjust themselves to the new regime of GST. So I think July 17 was not good. Others say they are seeing some signs of improvement, but I think this quarter normally remains low for the glass business as you all know except last year was an exception that H1 was better than H2. Normally H2 remains much better than H1 for the glass because the buying for the beverages and beer that starts happening from October November onwards and goes till March April, so I think this quarter will again remain subdued, may be it will not be as much minus in terms of sales, but I do not see overall growth coming in, we expect that we should be able to meet the revenue numbers of last year for the packaging business.

**Nehal Shah:** What about liquor bottle sales going forward?

**R.B. Kabra:** Liquor bottle sales now the Hon'ble Supreme Court clarified that the city roads are not covered and some states taking action that they have denotified certain highways and I think the sale will pickup, ultimately people who want to drink will drink find ways for it, some restaurants have changed their way, so that they can say that yes now it is more than 500 meters, they have entry from front to back, a lot of things are happening, so I think after this quarter, after September quarter, things should pickup.

**Nehal Shah:** Fine Sir. Thanks a lot. I will come back for any followup question.

**Moderator:** Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial. Please go ahead.

**Dixit Doshi:** Good evening Sir. I have just only one question, sometime back you had come out with a notice on BSE saying that the company has appointed a committee regarding the restructuring of the business, so what are the thoughts of the management going forward and is there any timeline for this restructuring exercise to be decided, the decision that management will take on this, is there any timeline fixed?

**Sandeep Sikka:** I take your point. Sitting here today nothing concrete is worked out. We have evaluated various options. Each option has its own subset of underlying liabilities in terms of tax, both direct, indirection taxations, stamp duties. We have evaluated various options and it may take some more time to take it to the board in a firm manner before we come out with a real thing which gets approved from the board. In terms of timeline, I will request you to wait for another couple of months. You should have more clarity on this as we are just trying to workout best case.

**R.B. Kabra:** Last time as we mentioned that the board has formed a committee to look into the various options, so the committee is working on that and no final conclusion has yet been found because whereas Mr. Sikka just mentioned that there is a lot of tax implication in terms of capital gains tax, in terms of stamp duties and other things. So still there is no concrete thing, but yes they are evaluating the various options.

**Dixit Doshi:** I take your point Sir, there is no concrete thing. My question is just how much time do you think it will take for you to take a decision on it, whether you want to move ahead or you do not want to move ahead or any, how much time will it take to finally decide upon it?

**Sandeep Sikka:** The final prerogative is with the Board of Directors and it should take a couple of months for the Board to finalize this.

**Dixit Doshi:** Thank you.

**Moderator:** Thank you. The next question is from the line of Sunil Kothare from Unique Investment Consultants. Please go ahead.

**Sunil Kothare:** Sir broadly to understand this GST and demonetisation and all these things, do you see any major benefits we being an organized and brand player, all the segments, just your broad thought process for next few years, you feel there will be more than normal business growth compare to overall sector growth for the company like us?

**R.B. Kabra:** Yes, Theoretically we always have been saying that the small scale sector especially if you talk of building products, they have been thriving based on various methods of tax avoidance, which will be going forward I do not say that it can happen immediately because the government starts collecting data, analysing them and then taking action based on their analysis. Ultimately the tax avoidance will become very difficult for them and when the tax avoidance becomes difficult, they have to raise their prices and when the difference between the branded products like us and unbranded product reduces, then the customer will be going for the branded products. Today the difference could be anywhere between 30% to 50%. So when it comes down to may be 10%, 15%, which efficiency of course small scale people will always have, but I think so, to me with the difference of 10%, 15% people will certainly switch over to branded products and that we say that is not true only for sanitaryware, but that would be true for many other product categories where there is a large, small scale sector working, which could be for faucets as well, which could be for tiles as well, which could be for pipes as well, so I think going forward the share of organized player is going to grow faster than the market growth.

**Sunil Kothare:** Sir we substantially reduced the retail business loss year-on-year, so what is your gut feel for the current year, last year at EBIT level we lost Rs.15 Crores, currently should we hope for substantially lower number?

**Sandeep Sikka:** A lot of activities are being done. We had good growth this quarter and we have been able to curtail the losses, we are open, we are planning to open few new stores. From last year, there has been some improvement both on the cost side as well as the sales side and the broad guidance, which is there is that may be somewhere around Rs.100 Crores plus we should do in this business.

**Sunil Kothare:** Current year?

**R.B. Kabra:** In the current year and I am not promising that we will be breakevening but we will be really very near breakeven.

**Sunil Kothare:** Thank you Sir. Wish you good luck.

**Moderator:** Thank you. The next question is from the line of Nehal Shah from ICICI Securities. Please go ahead.

**Nehal Shah:** For the new businesses like pipes and caps and closures, now where are we heading in terms of building up the plant and starting our production?

**Sandeep Sikka:** In terms of caps and closures, the trial run productions are already underway and we feel that trial run may go on for another month or so till we put it in the final production because finally why we are calling it a trial run is that the process is that when you create a mould overseas we got our product tested with our customers. We bought the machine and again the same product was made and the prototype was tested. The production from our own plant is now getting tested with all the customers so that the product stabilization happens at the customer level. We feel that it should happen in next one to two months and then the commercial production will start. Pipes, we feel that the trial run production should start in next 3 months as there is a delay of around one to two months from the last communication, which we did. We are planning somewhere between in early part of Q3, the trial run production will start there also.

**Nehal Shah:** So trial runs will start in Q3.

**Sandeep Sikka:** Early, may be around October.

**Nehal Shah:** October... and commercial production?

**Sandeep Sikka:** Commercial production may take another three months time after that.

**Nehal Shah:** So January possibly, Q4 starting?

**Sandeep Sikka:** Yes, Q4.

**Nehal Shah:** Yes, so what kind of losses are we looking at both these new businesses in terms of EBIT or PBT if you can just give us that?

**Sandeep Sikka:** We would like to avoid this question because let the business run, then we will be able to give more concrete answers, but in terms of caps and closure there is because it is extension of the existing business going to the consumers only. So there should not be much there, but on the pipe side since it is a new distribution and we are having a separate vertical, so there may be some cost there, but it is too early for to us take this question right now. May be in the next earnings conference call.

**Nehal Shah:** But generally the breakeven point in the pipe business would take around six to nine months, is that....?

**Sandeep Sikka:** Yes, around that much time.

**Nehal Shah:** Six to nine months. Okay Sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial. Please go ahead.

**Dixit Doshi:** How much was the faucet sales in the BPD division?

**Sandeep Sikka:** How much is the faucet sales?

**R.B. Kabra:** 27% of the building product sales.

**Dixit Doshi:** Okay. Thank you.

**Moderator:** The next question is from the line of Pranav Mehta from Equirus Securities. Please go ahead.

**Pranav Mehta:** Thank you Sir for taking my question, so basically Sir wanted your guidance for revenues for FY2018 and 2019 and also margins both gross and EBITDA margin, so what you are expecting for FY2018 and 2019?

**Sandeep Sikka:** Your question is too extensive. We can give you broad level growth on the revenue side. Building products on an overall basis we have said around 12% to 14% growth. Consumer products should ideally grow at 100%. 90% has been the growth of the first quarter. Packaging products, Mr. Kabra has already given guidance that it should be or we are trying that we could have a slight growth as compared to last year, whereas first quarter was not that good . We had a 14% degrowth and on the retail side, we feel that there should be around 10% growth on the retail business side and caps and closure will come in the picture. Overall if you see around 10% growth, 10% to 12% growth maybe slight higher, should be there on the overall basis.

**Pranav Mehta:** Sir what about the margins, are you expecting any gross margin improvement going forward?

**Sandeep Sikka:** We do not disclose our gross margin, but broadly I can give you guidance that gross margins in almost each of the business is almost the same as we have been historically doing it, it is only that we have been investing a lot of our earnings into development of new brands and the new products like if you talk of sanitaryware, we have huge brand segmentation within the sanitaryware. We invest a lot in terms of creation of premium brand, super luxury brand and even at the bottom of the pyramid, were we have Benelave. Part of earnings, which Hindware does goes into brand segmentation. On the face of it, the margins look lower especially when we started the faucets business. Faucets business we have been telling historically also and on the percentage basis, faucets do not earn the same percentages as the sanitaryware because of underlying brass and other elements in the product, but on ROCE basis it almost competes with it. On a broader guidance. on an overall basis we should close the year between 15% to 17% EBITDA margin.

**Pranav Mehta**: Okay and Sir what about the tax rate so this time the tax rate was higher so any impact of that merger with the retail division so you had earlier guided about lower tax rate, so what kind of tax rate can we assume going forward?

**Sandeep Sikka:** The demerger of retail undertaking which took place and it was into the parent company that was effective April 1, 2015. Major impact is on account of FY15-16 for which we have already filed the returns with the income tax authority. If you see our annual report on our website which is there, we have claimed around Rs.50 Crores plus as a refund from the government as a part of overall plan. But because the losses offset in the one year itself tax rate has also remained the same and overall tax rate may still be the same because of the deferred tax liabilities and other things. What we meant was that we may save some taxes on the account of cash flow, but lower tax has another impact of deferred tax liabilities and some other places and unabsorbed depreciation as well.

**Pranav Mehta**: Right Sir and Sir one last question what is the capex guidance for next two years?

**Sandeep Sikka:** We have given that, there are subsets of old projects and there are subsets of new projects like we have pipes, caps and closure. What we have given guidance is that Rs.120-125

Crores of cash spend this year and next year both. On the projects which have already been disclosed historically like caps and closure, pipes, it includes the faucet facility expansion also but we have not taken the decision when we will start that project.

**Pranav Mehta**: Okay so 120-125 would be currently is the capex guidance?

**Sandeep Sikka:** Cash outflows.

**Pranav Mehta**: Okay. Thank you Sir.

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

**Kamlesh Kotak**: Good evening Sir. Sir just can you help us understand what has been utilization across our sanitaryware and glass and faucets plants this quarter?

**R.B. Kabra:** The sanitaryware utilization is around 85% and glass considering the one furnace which is shut, it is around again 84% and the faucets plant because it was closed for two months because of the NGT issue, which we had already informed the stock exchange, again the plant started sometime in May end, so the plant actually ran only for a month so that was around 35%.

**Kamlesh Kotak**: Okay and Sir in terms of growth, what has been growth in these two building products and faucets, how has been growth for this quarter between the two?

**R.B. Kabra:**: Building product and?

**Kamlesh Kotak**: I mean sanitaryware and faucets?

**R.B. Kabra:** That breakup we do not give.

**Kamlesh Kotak**: Both have grown in tandem or is it anything that has been materially different?

**Sandeep Sikka:** There is an overall growth of around 1% as compared quarter on quarter. As you know this quarter was not that normal because of the GST impact all across the country. Measuring growth on Q1 basis may not be the right perspective because we were also trying to push the material and market was not ready. As we said, from September onwards normal growth numbers should come forward with all the festive season coming into the picture. We have given the guidance that around 12% to 14% on overall building product segment should be the growth.

**Kamlesh Kotak**: Sure and Sir on their consumer products side can you highlight any products that have been new launch and how the growth has been across we have some kitchen products and some consumer products, so how the product wise traction is seen in this business.

**Sandeep Sikka:** We have not been publically disclosing the product wise disclosures because of sensitivity involved but overall if you see the business in last two years have grown 100% and then this quarter despite the GST impact we have a growth of around 90% year-on-year which fairly shows that almost all the segments are growing, except for air purifiers. We are getting good response in the market. We have water heaters, kitchen hoods and hobs and chimneys. We have water purifiers, air coolers. In almost each of the product we have had good growth other than air purifiers.

**Kamlesh Kotak**: Any pipeline of new launches we have in that segment?

**Sandeep Sikka:** We had planned all these product launches to be completed by March 2017 and the focus right now is consolidation and growth of these businesses before looking into any new products.

**Kamlesh Kotak**: Okay and you said there is some significant marketing spends so how much was that during the quarter which you say may not be recurring?

**Sandeep Sikka:** Generally we do not disclose the segment of the expenses.

**Kamlesh Kotak**: But overall marketing spend as the percentage would be how much Sir for the year?

**Sandeep Sikka:** Yearly we have said that if we do a turnover between Rs.250 to 300 Crores by Q4, we should be near the breakeven.

**Kamlesh Kotak**: And you do not have spell out any marketing budget for that Sir?

**Sandeep Sikka:** No. We would not like to disclose the same.

**Kamlesh Kotak**: Alright okay Sir. Thank you.

**Moderator**: Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial. Please go ahead.

**Dixit Doshi**: This question is about the new product launch in the consumer products division, which is already asked by previous speaker. So that is it. Thank you.

**Moderator**: Thank you. The next question is from the line of Sunil Kothare from Unique Investment Consultants. Please go ahead.

**Sunil Kothare:** Sir, broadly as an investor, we can understand that we have now enough on our plate to grow for next three, four years and we already invested enough for current year Rs.125 Crores, next year also we are taking about completing whatever disclosed projects, so as organization, we have enough product range, enough division and enough capacity to grow for next three, four years or we will be again thinking about any some new project.

**R.B. Kabra:** I think these are two questions, number one, do we have enough capacity to grow for next three, four years, if you talk about sanitaryware, we mentioned that currently maybe few months ago we had a capacity about 3.8 million pieces. We added another 4,00,000 pieces, which was around 10-11%. Okay, so this should be good enough to take care of another next two, two-and-a-half years, but if we see that the growth going forward in H2 becomes much better then probably we will have to plan a third location of sanitaryware plant because the current locations cannot be grown further because each will be more than 2 million pieces and putting up a sanitaryware plant and bringing into operation takes anywhere between two to three years so depending on how the growth goes in the H2, which we think after the GST settling down, the trade channel settling down, the festive seasons being there and things improving overall as the economy. If the growth becomes as per for our expectation then may be by end of the year we may announce that we are going for a new sanitaryware plant. If the growth is subdued, then we may defer it for another six months to nine months. So this is as far as the sanitaryware goes. Coming to the faucets, we mentioned that our run rate was around 70-75% and again we have decided to expand the capacities from 2.5 million pieces to 3.7 million pieces that will cost around Rs.40 Crores, which is already sanctioned by the board. The work will start after six months and it will take six months to complete, so a year from today, we will be spending Rs.40 Crores and faucet capacity will go from 2.5 million to 3.7 million pieces, which should be good enough for next two to three years. Okay, so this is this. Coming to glass you all know that one furnace of 300 tonnes is already shut and the current capacity utilization of three furnaces is 84%, so we have 16% spare capacity on three furnaces. The fourth furnace is ready. If the demand goes up substantially, the four furnaces can be lit up, which is around 25% of the total capacity, so we do not think we need any investment in glass going forward for another three, four years. So I think I have answered or you want some more?

**Sunil Kothare:** Sir what I am thinking is this new project we have taken is this one caps and closure and second is pipe division…?

**R.B. Kabra:** Yes. Caps and closure we have mentioned that we had a budget of Rs.112 Crores for caps and closure, and Rs.133 Crores for the pipes. So that money will be spend in phases like caps and closure till now we have spent around Rs. 70 Crores and that should be good enough for phase I, we will be spending another Rs.20-25 Crores for phase II, this will be ready after three, four months, then may be another balance for the phase III, so I think that will be good enough for another one-and-a-half year to two years. Similarly for pipe, the budget is for 30,000 tonne capacity, we would be starting with 12,000 tonne capacity, but the total budget which is Rs.133, 135 Crores is taking care of the total 30,000 capacity, but the money will be spent in phases, like pipe, we have till now spent around Rs.80 Crores.

**Sunil Kothare:** By 18,19 end, we will be spending all these and complete all these projects?

**R.B. Kabra:** Yes that is correct.

**Sunil Kothare:** Right Sir. Thank you very much Sir.

**Moderator:** Thank you. The next question is from the line of Lakshmi Narayanan from Catamaran. Please go ahead.

**Lakshmi Narayanan:** Thanks for taking my question. Sir you had mentioned in your annual report that you have close to 3,200 dealers and close to around 21,000 touch points. Now from the compliance point of view any idea of how much of them have kind of moved to the new system that we are able to match the GST things etc. any thought on that?

**R.B. Kabra:** All our dealers, which we say that around 3000 dealers when we talk of directly deal with the company, only have record of these people because when we talk of 21,000 retail touch points, they buy from our dealers and distributors.

**Lakshmi Narayanan:** Got it okay.

**R.B. Kabra:** We do not deal directly with 21,000 people, we deal with 3000 people and they are large enough, and they all compliant with GST number and everything has been taken by them.

**Lakshmi Narayanan:** Got it and do you see any delay in the off take because as from the dealer point of view things are clear, but the next level where they would not be having matching credits etc. any thought on that of any guidance because you mentioned clearly that it will take till September to get corrected, so..

**R.B. Kabra:** Again what we say ultimately that the people stopped buying less from May middle onwards when the rates were announced, ultimately someday the pipeline will dry up. Whether it is the dealer and whether it is the retailer and ultimately people will start buying. Today, maybe the retailer also is clearing his own stock and clearing his books of account, return filing the inventory. So they may still not buy for another few days or few weeks, ultimately they are in business, so that they will have to ultimately start buying so that is why we say maybe this quarter can still remain subdued but from Q3 onwards things should become normal.

**Lakshmi Narayanan:** Given that you touch almost 80% of the touch points, that you are among the largest selling sanitaryware products, do you say that…and you had reported 1% growth, is it reflected of the industry that you are in line with the industry or you are better than the industry any thought?

**R.B. Kabra:** I think it will more or less in line with the industry and if you see results probably the listed companies, which will be I think one might have come in or few is going to come, but the growth will be subdued for most of them as we understand.

**Lakshmi Narayanan:** Got it. Sir one last question, housekeeping question in terms if…?

**R.B. Kabra:** Pressure on margins also.

**Lakshmi Narayanan:** Sorry…?

**R.B. Kabra:** And people will also have pressure on the margin because ultimately this sales growth does not happen then the contribution reduces so ultimately the overall margin also reduces.

**Lakshmi Narayanan:** Got it and you mentioned that 27% of building products and the balance is sanitaryware, right so 73% or so, now..

**R.B. Kabra:** Sanitaryware is around 64-65% and balance are other product like plastic products, plastic cisterns and wellness products what we sell.

**Lakshmi Narayanan:** Got it. Now what is the mix of institutional sales and retail sales or it is all bunched up as one?

**R.B. Kabra:** 27 and 73, institutional is 27 and retail is 73.

**Lakshmi Narayanan:** Okay. Thank you so much Sir. This is helpful.

**Moderator:** Thank you. The next question is from the line of Anup Nambiath from Equity Intelligence. Please go ahead.

**Anup Nambiath:** Thanks for taking my question. My question was on the retail division as a number of stores of Evok. Like last call it was mentioned that we had closed down a couple of stores. Have we closed any stores this quarter or is there any addition and secondly do we have any franchise operated stores in this?

**Sandeep Sikka:** Till last quarter we had 14 stores and recently we opened one store in Baroda, and as of today we have 15 stores. We work on franchises also and that varies from city to city and the plan is that maybe in this financial year we may open another two stores. We are right now doing the feasibility studies across various cities and that is the broader guidance which I can give you.

**Anup Nambiath:** We have talked about the e-commerce contribution in this segment like how much would be the contribution of e-commerce?

**Sandeep Sikka:** E-commerce is not a big component here for us and although it is growing, but it is still less than 2-3%.

**Anup Nambiath:** Franchisee, you are getting the number right?

**Sandeep Sikka:** Yes, franchises we are doing.

**Anup Nambiath:** How many number…Any numbers?

**Sandeep Sikka:** We do not disclose numbers as such because it keeps fluctuating. I can let you know later on maybe, separately.

**Anup Nambiath:** Okay. That is it. Thanks and wish you all the best.

**Moderator:** Thank you. The next question is from the line of Dhaval Mehta from Emkay Global. Please go ahead.

**Dhaval Mehta:** Hi Sir, my question is related to BPD division. So I understand that the June month was like more of a washout month because of the destocking led by GST, so how was our growth in the month of April and May, any quantitative answer will also be helpful Sir.

**Sandeep Sikka:** Generally month by month results are not in public domain. We have been giving quarterly results only. You can track us from the historical growth. Broadly in the range of Q4, that is also representative of the same thing.

**Dhaval Mehta:** Okay, Sir my second question is that if you see from last 12 months especially last three to four quarters the fuel cost has increased very sharply, so what kind of price hikes you have taken in our BPD segment?

**R.B. Kabra:** Price increase in BPD?

**Dhaval Mehta:** Yes in the sanitaryware main core sanitaryware segment?

**R.B. Kabra:** That was October 16 last we have taken 3.5%.

**Dhaval Mehta:** Right, are we contemplating any further price hikes in the near term or you expect that the fuel cost and will have…

**R.B. Kabra:** Not in this quarter because in any case business is already very subdued, so maybe quarter three we may look at some kind of price increase.

**Dhaval Mehta:** It will be in the same range or it can be even higher?

**R.B. Kabra:** Depends what kind of fuel prices remain at that point of time?

**Dhaval Mehta:** Okay. Sir, if you see our BPD EBIT margins, gradually it has come down over last few quarters, I understand that our growth has been muted because of more of macro scenario, but when we expect the margins to be back to around 17-18% kind of level in the BPD segment?

**R.B. Kabra:** Last time also we mentioned that when you talk of percentage margin, the ratio of faucet grows the percentage will drop because the kind of margins we have in sanitaryware that kind of margin is not there in the faucet business. But that does not mean that the faucet business is bad and the return on capital employed in faucet is more or less equal to sanitaryware because the capital turnover in faucet is much higher.

**Dhaval Mehta:** Much higher that I understand Sir.

**R.B. Kabra:** So ultimately if I have an X percentage margin in sanitaryware and I have X minus some percentage in faucets and the faucet ratio grows up, the overall percentage may look dropped, but that does not mean that the EBITDA margins or the EBIT margins are getting compromised.

**Dhaval Mehta:** Okay, but have you seen any deterioration in our segment-wise margin let say if you say pure play sanitaryware or a pure play faucet margin over the last few quarters?

**R.B. Kabra:** Not really.

**Dhaval Mehta:** Okay. That is helpful Sir. Tanvi you can take another question from the queue.

**Moderator**: Thank you. The next question is from the line of Sunil Kothare from Unique Investment Consultants. Please go ahead.

**Sunil Kothare:** Sorry again for Sir, my broad question is looking at the annual report it seems that our thought process is now moving towards asset light model more towards brand and intangible, could you like to comment something on this Sir, because previously also I asked this question regarding heavy capital investment we made so many product range. First time we introduced this consumer product division without very high capital intensive this investment, so are we moving towards asset light growth model, if you can comment on this?

**Sandeep Sikka:** Focus is always to improve the return on capital employed. We have been telling in various forums and various communications that in 2015 company took strategic initiative of taking new go to market distribution channels. When you see annual report you see the asset light model, you see the verticalization also as a part of the same concept. We have a very strong building product channel, wherein we have 3,000-3,500 active distributors touching around 20,000 retail touch points. That is the different distribution model. We can keep adding products in each of the distribution model without manufacturing it. We can get best quality products from the best players globally and superimpose in our distribution. Similarly, if you see in consumer products, which is almost 2.5 years old, with a focused approach, today we have 350 plus distributors touching around 5,000 plus retail touch points on the consumer side and the third vertical which we will open in the market is with the pipes, which is the hardware channel. Hardware is coming up with the pipes because in pipes we never wanted to go on a trading model because ultimate money is made on the fittings in the pipes but once we have fully nurtured the hardware channel, which may take another one or two years, we may superimpose number of products, which may go into hardware or a consumer product or a sanitaryware distribution. These are three separate distributions. There comes the concept of going asset light going in future. We have made a core investment and around that core investment, we can work around with the products with a gross margin of let us say 30% to 50% and straightaway that gross margin adds to our overall margins. 70-75% of this gross margin may add up to the EBITDA because we are already providing the infrastructure for the entire sales. That is the concept which is there in the annual report and in the communication which we wanted to make to the stakeholders there.

**Sunil Kothare:** Thank you very much Sir.

**Sandeep Sikka:** Thank you.

**Moderator:** Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial. Please go ahead.

**Dixit Doshi:** Hi Sir, what is the current debt on books and if you can…how much of it pertains to BPD and how much of it is packaging?

**Sunil Kothare:** So, the overall debt is around Rs.740 Crores. We generally do not disclose separate debt levels because we borrow in the general pool and then gets allocated to various things, of which the working capital would be somewhere around Rs.300-325 Crores of working capital debt, so 350 Crores of working capital debt and rest is long-term loans.

**Dixit Doshi:** Okay. That is it Sir. Thank you.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Dhaval Mehta from Emkay Global for closing comments.

**Dhaval Mehta:** Thank you once again everyone for attending the call as well as the management for giving Emkay the opportunity to host this call. Would you like to make any closing comments Sir?

**R.B. Kabra:** Yes Dhaval, I thank you for arranging the call and thanks all participants for taking out time despite after a long weekend when everybody becomes very busy after long weekend when it is the first day in office, but I thank all of them for taking out time and asking the relevant questions. Thank you very much.

**Dhaval Mehta:** Thank you Sir. Thank you everyone.

**Moderator:** Thank you. On behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us and you may now disconnect your lines.